FINANCIAL TIMES

TUESDAY AUGUST 31 1993 D8523A

US troops detain UN staff in raid on Somali compound

Crack US troops stormed two aid compounds in the Somali capital Mogadishu and detained foreign UN staff in an assault aimed at top lieutenants of fugitive Somali leader Mohamed Farah Aideed. Jamie McKindrick of the British charity Save the Children Fund called the raid "another blunder" by troops "with no experience in Somalia". But the UN denied the raid was bungled and criticised aid staff for living in buildings they were not authorised to use.

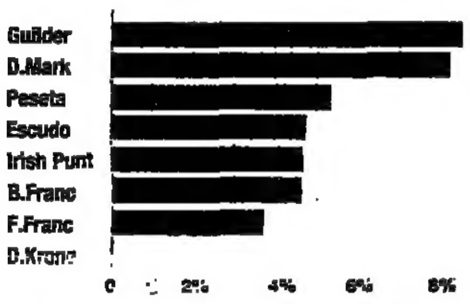
Delors seeks move to save Maastricht: European Commission president Jacques Delors warned that unless there was a bold "new initiative", the Maastricht treaty and its vision of economic and monetary union would be a dead letter. Page 14

ANC apologises for abuses: The African National Congress apologised for abuses, including torture, detention and murder, in detention camps it operated in the 1980s.

Ex-aide to Greek PM accused: Nikos Gryllakis, former senior aide of Greek prime minister Constantine Mitsotakis, was charged with being involved in a plot to tap the phones of opposition politicians.

European Monetary System: A renewed bout of pressure on the French franc, Belgian franc and Danish krone put more strain on the exchange rate mechanism's grid at the end of last week. At the close on Friday, some 8.13 percentage points divided the weakest currency in the system – the Danish krone – from the strongest – the Dutch guilder. The permitted fluctuation is 15 percentage points. Foreign exchange analysts believe the weaker ERM currencies could come under more pressure unless their interest rates are cut. **Currencies, Page 27: Economics Notebook, Page 15**

EMS: Grid August 27, 1993



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. After the reform of the exchange rate mechanism on August 2, 1993, one member currency can rise against another by as much as 15 percentage points in the system's grid. The exception is the divergence between the D-Mark and the Dutch guilder, which remain tied to each other in a 2.25 per cent band.

Boardroom split at TNT: Tensions at the top of Australian transport group TNT surfaced in a boardroom split with the abrupt resignation of five directors, including founder Sir Peter Abeles. Page 15

Jackson calls off third concert: Singer Michael Jackson, accused last week in the US of sexually abusing a child, called off a concert in Singapore after collapsing backstage with acute migraine. It is the third concert he has postponed on a South-East Asian tour.

Hoechst earnings slide 31%: Weak domestic demand and restructuring costs were blamed by Hoechst, German chemicals group, for a 31 per cent slump in first-half earnings. Page 15

'No change' in French economic policy: The French government had no intention of "changing the direction" of economic and financial policy, economy minister Edmond Alphandéry, said as the unemployment rate edged slightly higher to 11.7 per cent in July. Page 14

Haiti has new PM: Businessman Robert Malval was sworn in as Haiti's prime minister by exiled president Jean Bertrand-Aristide, moving the nation closer to restoration of democracy.

Rio shanty massacre: Hooded gunmen opened fire on residents of a shanty area of Rio de Janeiro, Brazil, as they went to work, killing 21 people, according to a television report.

Moscow bomb kills businessman: A Greek businessman, identified only as N. Ladidis, was killed by a bomb which exploded in a car outside a hotel in the centre of Moscow.

Russian troops to pull out: Russian troops are to be withdrawn from Lithuania, in a move that should help restore relations between the two countries. Page 3

Flat TV screen unveiled: Matsushita of Japan launched a television screen which makes it possible to build a 36cm set less than 10cm thick.

■ STOCK MARKET INDICES

Tokyo Nikkei	20,912.69	(+121.01)
New York lunchtime		
Dow Jones Ind Ave	3649.30	(+8.67)
S&P Composite	461.80	(+1.26)

■ US LUNCHTIME RATES

Federal Funds:	3 1/16%
3-mo Treas Bills: Yld	3.06%
Long Bond	101 1/32
Yield	6.11%

■ Gold

New York Comex		
Dec	$373.3	(372.1)

■ STERLING

New York lunchtime:	
$	1.491

■ DOLLAR

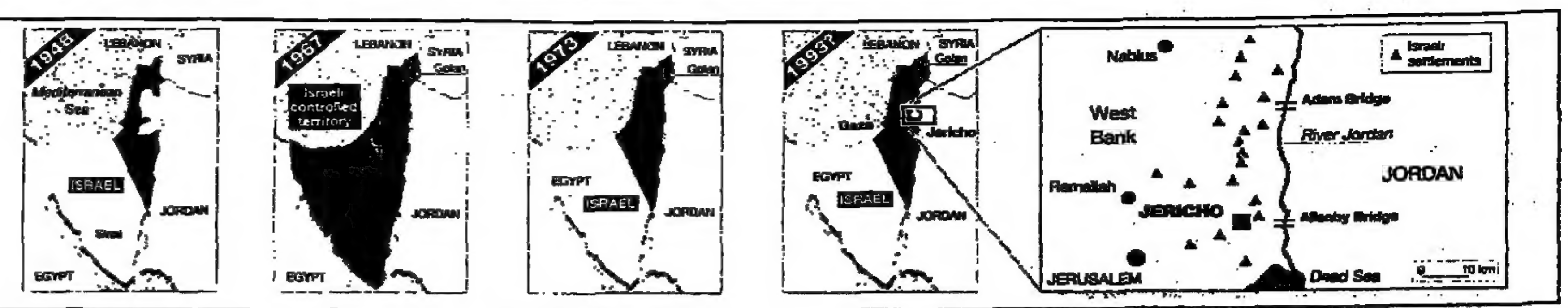
New York lunchtime:		
DM	1.6745	(1.664)
FFr	5.8565	(5.8255)
SFr	1.4725	(1.4685)
Y	103.95	(103.8)

Tokyo close Y 103.90

London markets closed

Austria	Sch30	Germany	DM3.30	Malta	Lm0.60	S.Arabia	SR11
Bahrain	Din1.250	Greece	Dr300	Morocco	MDh13	Singapore	S$4.10
Belgium	BFr65	Hungary	Ft185	Neth	Fl 3.75	Slovak Rp	KSL45
Bulgaria	Lv25.00	Iceland	IKr215	Nigeria	Naira45	Slovenia	SLT220
Croatia	HRD5700	India	Rs40	Norway	NKr16.00	South Africa	R12.00
Cyprus	C£1.00	Israel	Shk5.90	Oman	OR1.50	Spain	Pta210
Czech Rp	CZK45	Italy	L2700	Pakistan	Rs35	Sweden	SKr15
Denmark	DKr15	Jordan	JD1.50	Philippines	Pso45	Switz	SFr3.20
Egypt	E£4.50	Kuwait	Fils600	Poland	Zl 22,000	Syria	S£50.00
Finland	FM12	Lebanon	US$1.25	Portugal	Es215	Tunisia	Din1.250
France	FFr9.00	Lux	LFr65	Qatar	QR12.00	Turkey	L8000
						UAE	Dh11.00

The changing shape of war and peace in the Middle East



Graphic by Bob Hutchinson

Extremists from both factions threaten violent opposition to historic agreement

Israel committed to peace deal with Palestinians

Associated Press

Israeli foreign minister Shimon Peres commends the peace agreement to a stormy parliamentary session

By Julian Ozanne in Jerusalem

ISRAEL last night committed itself to a historic peace agreement with Palestinians which could be a first step to ending a conflict which has wracked the Middle East for decades.

Mr Yitzhak Rabin, prime minister, said Israel would sign an accord with Palestinians at peace talks which resume in Washington today.

This is expected to provide, among other things, for a degree of Palestinian self-rule in the Israeli-occupied West Bank and Gaza Strip, and Israeli recognition of the Palestine Liberation Organisation, according to Mr Shimon Peres, foreign minister, who concluded the agreement in secret talks with a PLO representative in Norway last week.

Mr Peres and Mr Rabin were speaking hours before an extraordinary session of the Israeli cabinet which was expected to approve the peace plan by an overwhelming majority. "The beginning of the end to the 100-year conflict between us and the Palestinians is coming," Mr Peres told parliament.

PAGE 5
■ 'The world has changed'
■ Palestinian divisions exposed
PAGE 13
■ Poised on a hair trigger

A senior official of the Palestine Liberation Organisation confirmed the agreement and said it could be signed within 48 hours. Egypt welcomed the move but Palestinian and Israeli extremists condemned it and warned of violent opposition.

In Washington, US president Bill Clinton sounded a cautious note. He warned that apparent good news in the Middle East had often turned into disappointment in the past, adding: "We've still got a long way to go."

The agreement is a comprehensive package providing for:

- A five year interim period of self-rule for 1.8m Palestinians in the territories occupied by Israel since the 1967 Arab-Israeli war;
- A partial Israeli military withdrawal from the occupied Gaza Strip and an undefined enclave around the West Bank town of Jericho;
- mutual recognition between Israel and the PLO.

If signed, and not derailed by Israeli and Palestinian extremists, the plan could hasten progress towards a comprehensive Middle East peace agreement between Israel and all its Arab neighbours.

Mr Rabin told ministers it was "a great step forward to advance Israel towards peace with all the neighbouring states and especially Palestinians. I believe this will happen."

The Palestinians will be granted full authority over their internal affairs including policing in Gaza-Jericho but will have lesser powers in the rest of the West Bank.

Jericho, a small dusty town in the parched Jordan Valley will become the administrative capital for the expanded elected Palestinian authority. Bethlehem will be the site of the lesser authority governing the rest of the West Bank.

Israel will redeploy its troops out of population centres in Gaza-Jericho but will remain to provide a security role for the estimated 6,000 settlers living on the outskirts of Gaza and Jericho. Israel will keep full control of occupied Arab East Jerusalem, the Israeli settlements and the Israeli-Jordanian and Israeli-Egyptian border crossings at least until talks begin on permanent arrangements two years after the interim agreement is signed.

Continued on Page 14

Norway plays the 'back-door' mediator

By Karen Fossli in Oslo

CLANDESTINE meetings on Norwegian farms and in the private homes of Norwegian officials helped secure the interim agreement on resolving the Middle East conflict, Norwegian officials said yesterday.

Mr Johan Joergan Holst, foreign minister, said his country's role as a "back-door" mediator was central to what he described as a historic breakthrough.

"Crucial" meetings in Norway and Tunisia took place between April and August this year, although Norway's involvement in the peace process began years earlier. In all, 25 meetings took place, all with the blessing of Washington, Mr Holst said.

Five Norwegian representatives, including two married couples, made up a special mediating team. Mr Holst was assisted in the meetings by his wife, Ms Marianne Heiberg, a foreign policy researcher, and Mr Jan Egeland, secretary of state in the foreign ministry. Also involved were Mr Terje-Roed Larsen, head of Norway's Trade Union Centre for Research and Documentation, and his wife, Ms Mona Juul, who works in the foreign ministry.

"The agreement will be signed when the time is ripe, and I tend to believe this could be in a matter of days," Mr Holst said yesterday.

Norway gained the trust and confidence of both the Palestine Liberation Organisation and Israel as the independent, secret mediator largely because of its long-standing traditional ties to Israel's Labour party, earlier meetings with PLO leader Yassir Arafat and status as a founding member of Nato.

EC set to renew pressure on Japan over car exports

By Andrew Hill in Brussels

EUROPEAN COMMUNITY trade negotiators will renew pressure on Japan this week to rein in car exports to the Community, in the light of worsening monthly figures for new car sales in Europe.

European Commission officials fly to Tokyo today to persuade Japan to improve on the commitment made in April to cut exports by 9.4 per cent this year.

The Japanese have hinted they are ready to agree a further reduction, so Thursday and Friday's discussions will focus on the scale of new cuts. EC officials have not revealed their new target, but after meeting the Japanese in Brussels last month, they indicated they were hoping for an 18 per cent reduction this year.

The Commission says sales figures released or confirmed since the inconclusive Brussels meeting show the situation has worsened. According to one Commission official, there would now have to be "an incredible boom in the second half of the year" to fulfil the Japanese forecast that 1993 sales will decline by 12 per cent. The same officials said even the Commission estimate of 16 per cent – in line with industry forecasts in July – was "becoming an optimistic number".

Industry estimates published this month suggested that new car sales in western Europe had dropped by an estimated 20.1 per cent in July, contributing to a fall of 17.7 per cent over the first seven months of the year, compared with the equivalent period.

In the last week, DRI, the UK-based automotive analyst, has forecast a 16 per cent decline in west European sales of new cars this year; Volkswagen and Renault have announced poor financial results for the first half of the year; and Nissan, the Japanese carmaker, has said its UK plant may not achieve the rise in output forecast for this year.

The European Automobile Manufacturers' Association plans to release provisional figures for August sales shortly. "A little upturn in the UK has certainly not been enough to offset the terrible picture everywhere else," said a spokesman yesterday.

Under the terms of a 1991 "understanding" between the EC and Japan, Tokyo and Brussels agree informal annual limits on the export of cars and light commercial vehicles to the EC, to allow the Community to gradually open its market to full competition. The 1991 deal does not directly cover Japanese vehicles manufactured in Europe.

French stance 'could sink Gatt talks'

By David Buchan in Paris, David Dodwell in London and Ariane Genillard in Bonn

LEADING trade negotiators expressed concern in Geneva yesterday that France is bent on undermining the Uruguay Round of talks on world trade liberalisation.

This follows French insistence that its European Community partners must water down a farm trade agreement with the US which Paris claims the European Commission should not have negotiated with Washington last November. French officials will this week continue discussions with Germany on Paris's proposed changes to the so-called Blair House accord on US-EC trade in subsidised farm goods.

But in Geneva yesterday, trade officials from 106 countries, gathering for three critical months of negotiation intended to finalise the long-stalled Uruguay round, warned that reopening the Blair House agreement would scupper the round.

"If the EC were formally to ask for Blair House to be reopened, you can forget the Uruguay round," one leading negotiator

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Moslems cast doubt on peace prospects

By Laura Silber in Geneva

MR Alija Izetbegovic, Bosnia's president, yesterday cast doubts on the prospects of reaching a peace agreement when talks resume today in Geneva, saying "he felt like a thirsty man sent to find water in the desert".

Mr Izetbegovic, a Moslem, is due to meet his Serb and Croat adversaries after international mediators set this week's deadline for them to endorse the republic's partition.

A UN official yesterday warned against any side seeking "radical" concessions instead of minor territorial adjustments of the package put forward by peace envoys Lord Owen and Mr Thorvald Stoltenberg. "Those concessions and the whole package are not going to stay on the table indefinitely," said the official, adding "bits and bobs are one thing but whole shopping lists are another".

The next days would determine whether the peace was to be given a chance or whether there was to be an intensified conflict, the official said.

Bosnia's ruling assembly rejected the "compromise package" at the weekend for failing to restore government control over territory that was mostly Moslem before the war. The assembly also criticised the plan for failing to provide sufficient Nato and US guarantees that it would be enforced.

After his assembly backed the plan, Mr Radovan Karadzic, the Bosnian Serb leader, repeated threats that the Moslems would be left with nothing if they rejected the offer.

Bosnian Croat leaders said they would seek some minor changes in the plan, reportedly along Bosnia's northern frontier with Croatia which, under the proposed map, was mostly designated as part of the Serb republic.

The peace envoys have expressed their disappointment in failing to wring more concessions from Bosnian Serb leaders. Serb forces currently control about 70 per cent of Bosnian territory. The proposed map gives Serbs about 54 per cent, Croats 17 per cent, and Moslems some 28 per cent.

Lord Owen last week said the settlement was the best deal he could salvage for the Moslems, Bosnia's biggest ethnic group comprising 44 per cent of the pre-war population.

But Mr Izetbegovic, speaking after yesterday's talks were postponed until today because the Bosnian delegation had difficulties in leaving Sarajevo, was reported to have said: "Our people need peace, and the proposals being offered are worse than war."

As peace hopes fade attention again focuses on sanctions against Serbia

Macedonia reluctant to plug gaps

By Kerin Hope

THE trucks cluster each evening in lay-bys close to Macedonia's border with Serbia, waiting for UN sanctions monitors to go off duty. But even if the monitors stay up late, the drivers, keeping in touch through walkie-talkies, can choose from dozens of unwatched tracks to cross the frontier.

As measures to enforce sanctions against Serbia and Montenegro have tightened along the Danube and Serbia's border with Bulgaria, Macedonia has become the main supply route for the rump Yugoslavia.

According to the UN protection force, which also monitors the border, about 4,000 trucks make the crossing in both directions every week. Vehicles carrying oil products, construction materials and spare parts for heavy machinery have been spotted, but not stopped.

The 38-member sanctions assistance mission, made up of customs officers from several countries, encourage the Macedonian customs service to inspect loads crossing the border. But it has no authority to enforce the sanctions.

"Once in a while the customs will follow our suggestions, but whole days go by when no trucks get inspected," said Mr Gordon Evers, a Canadian customs official leading the SAM team.

The rail link between Athens and Belgrade is still in operation. Two or three freight trains leave Skopje every night and tanker trains carrying oil head north several times a week.

Macedonia, which was admitted to the UN earlier this year, has formally backed the embargo against Serbia, its main trading partner. The government claims that the sanctions cost the Macedonian economy more than $1.2bn (£810m) last year.

However, government officials argue that the economy is so battered by the loss of trade with Serbia, together with the effects of more than a year of diplomatic isolation, that it cannot be expected to apply sanctions fully unless compensation is guaranteed.

"We ask the UN about compensation and they refer us to the European Community. There's no money in sight, but we have to cope with another 15 per cent fall in industrial output this year and an unemployment rate of more than 30 per cent," says a government economic adviser.

Macedonian officials admit, too, that their enthusiasm for complying with sanctions has been diluted by delays in the arrival of Ecu100m (£76.4m) in EC aid, promised last December.

Half of that amount is being contributed by member states on a bilateral basis, with the rest provided by the European Commission.

The government also claims it is being blackmailed into shipping oil to Serbia by Greece, which is Macedonia's main source for oil supplies.

According to a senior Macedonian official, Greece last month threatened to cut off all oil shipments to Macedonia unless half the supply from the northern Greek port of Thessaloniki, amounting to more than 80,000 tonnes monthly, was sent on to Serbia.

Reuter

A young Bosnian Moslem girl beside the grave in Mostar of her brother, who died in fighting earlier this year

Serbs count human cost

By Laura Silber

THE headlines in Belgrade newspapers each day reflect a human tragedy as the Serbian economy suffers under the weight of United Nations sanctions. "Babies are dying," one says, while others claim that "starving pensioners are committing suicide" and "grocery store shelves are bare".

After months of virtually ignoring the west, Serbian leaders have launched an offensive to get sanctions lifted on humanitarian grounds. Mr Milorad Unkovic, federal minister for foreign economic relations in the rump Yugoslavia, which comprises Serbia and Montenegro, said there was "great danger with the approach of winter. People will not be able to heat their homes."

The economic decline of Serbia shows no sign of bottoming out. Inflation in August ran at a monthly rate of 1,500 per cent. The Yugoslav National Bank yesterday issued a 1bn dinar banknote worth less than $3.

Industrial production in June dropped by 37 per cent compared with the same month last year and hundreds of thousands of workers have been sacked as factories close.

Serbian health care is suffering badly. Medicines and food are not covered by sanctions, but "if you need surgery, bring your own medicines, needles, anaesthetics and linens, or commit suicide if you don't have money," said Mr Predrag Simic, director of the Belgrade institute of international politics and economics.

If a settlement is reached in Geneva this week for a partition of Bosnia, Serbia step up pressure for lifting sanctions. But if sanctions were eased, a victorious Serbian President Slobodan Milosevic would be rewarded for destroying Bosnia and creating Greater Serbia.

Russia has called for sanctions to be eased if progress is made on partition but the US says it is far too early even to discuss such measures. Proponents of sanctions on Serbia are convinced that they represent the only means of containing an aggressive state, which is now a regional military power.

However Mr Vladislav Jovanovic, Serbian foreign minister, warned that "sanctions have become the biggest generator of instability in the Balkans". Serbian officials point to a growing number of countries hit by 15 months of sanctions on Serbia: Greece, Romania, Bulgaria, Ukraine, and Hungary have all sustained large losses, while officials from Macedonia say sanctions are harming the former Yugoslav republic even more than Serbia, its northern neighbour.

The imposition of sanctions against Serbia has proved to be one of the few issues on which the west was united. But removing them looks likely to be yet another divisive issue.

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Red Cross to toughen stand over war crimes

By Frances Williams in Geneva

MR Cornelio Sommaruga, president of the International Committee of the Red Cross, warned yesterday that modern warfare would descend into "absolute chaos" if governments did not stop violations of humanitarian law.

Opening a three-day conference in Geneva on the protection of war victims, Mr Sommaruga stressed that signatories of the 1949 Geneva conventions and the 1977 protocols protecting non-combatants were committed not only to upholding the rules themselves but to ensuring others also did so.

The ICRC and the Swiss government, depositary state for the conventions, called the conference at a time of mounting violations of international humanitarian law. Red Cross and United Nations aid officials have described the fighting in former Yugoslavia as the most savage in recent memory, but many other conflicts reveal a similar picture of carnage and brutality.

The ICRC is particularly alarmed by two new developments: the targeting of civilians as a war objective and the obstruction of humanitarian relief efforts, including attacks on aid workers and contempt for the Red Cross emblem.

Ministers and officials from some 160 countries attending the conference are expected tomorrow to endorse a declaration backing outside intervention to prevent violations of humanitarian law and supporting UN moves to establish a permanent war crimes tribunal.

The ICRC, which monitors the Geneva conventions, admits it faces a paradox. While urging signatory states to enforce the conventions, it maintains a neutral stance that prevents it from exposing specific wrongdoing or giving evidence to a war crimes tribunal. "If they thought we were there to collect information they would not allow us to fulfil our mandate," Mr Sommaruga said recently.

However, this policy is being debated within the ICRC, which has been stung by criticism that it was slow to reveal the existence of detention camps in Bosnia.

At the same time there is no intention to emulate the UNHCR, which has ruthlessly exploited media coverage to shame the warring factions in Bosnia into allowing aid convoys through.

Another paradox is that many of those involved in current, mainly civil, wars – and most in need of reminding of "elementary ethics," as Mr Flavio Cotti, the Swiss foreign minister, put it last week – are not attending the conference. Invitations went only to UN members and observers.

Row splits Italian investigators

By Haig Simonian in Milan

MR Francesco Saverio Borrelli, the leading magistrate behind Italy's 18-month political corruption investigation, will have to take urgent action to restore the credibility of his magistrates when he returns to Milan today.

Deep divisions emerged among magistrates after the revelation last week that Mr Marcello Stefanini, treasurer of the Democratic Party of the Left (PDS), the former Communist Party (PCI), had been told he was under investigation for alleged corruption and illegal political funding.

The PDS has consistently denied involvement in the bribes which have tainted almost all Italy's big political parties.

Two magistrates argued on newspaper front pages over whether investigators had deliberately held back from pursuing allegations against the PDS and the Communists.

Ms Tiziana Parenti, the magistrate investigating the PDS, complained she had been isolated by her colleagues.

The interview provoked a sharp response from Mr Gerardo d'Ambrosio, Milan's assistant public attorney, who has been running matters in Mr Borrelli's absence on holiday. Mr d'Ambrosio played down the allegations against Mr Stefanini, a PDS senator who was treasurer of the Communist Party before its metamorphosis into the PDS.

Mr Stefanini was alleged to have been the intended recipient of L621m ($390,000) paid by Calcestruzzi, the building materials subsidiary of the Ferruzzi group, to Mr Primo Greganti, a former PCI official. The money was alleged to have been a bribe in return for contracts won by Calcestruzzi from the Enel electricity generating authority.

While not denying the existence of the Swiss bank account into which the money was paid, Mr Greganti, arrested this year, has consistently denied the cash was for the PCI.

SHAREHOLDERS in Montedison, the industrial subsidiary of Italy's troubled Ferruzzi group, yesterday gave its new management clearance to press for damages from five former executives and the heirs of Mr Raul Gardini, who killed himself last month, writes Haig Simonian. The new management, which was imposed by the group's bank creditors in June, has already won approval by a court to freeze assets of up to L500bn ($313m) each belonging to the five former managers and to Mr Gardini's heirs.

Bundesbank caught in a rates quandary

By David Waller in Frankfurt

ECONOMISTS who dared to speculate on the direction of German interest rates last week are now pondering the question of where German monetary policy goes from here after the decision not to cut rates.

The question is delicate at a time when there is suspicion in some European capitals that the Bundesbank takes pleasure in wrong-footing those who try to guess the timing and scope of future interest rate moves.

The economic factors governing policy are conflicting – inflation is on the way down, according to Mr Otmar Issing, the Bundesbank's chief economist and member of the policy-making directorate, and this should lead to lower interest rates. But money supply growth – the yardstick by which the German central bank steers its interest rate policy – is running well above the bank's target range.

Price stability and the defence of the German currency have long been at the core of Bundesbank policy. But there is another factor – the worst downturn in Germany since the second world war.

Mr Issing declared last Friday that monetary policy would increasingly take its cue from the German recession, implying that the Bundesbank wanted to do its bit to alleviate the problems suffered by German industry.

In practice, however, Mr Issing's concern about the recession is likely to mean that interest rates *will* eventually come down, but only at a slow pace. Comments by Mr Hans Tietmeyer, vice-president and president elect of the Bundesbank, also point to lower rates and concern for the wider economy. Mr Tietmeyer said recently that further appreciation of the D-Mark within Europe was undesirable in the light of German exporters' need to remain competitive.

But the Bundesbank finds itself between a rock and hard place. On the one hand it wants to cut rates, which would help alleviate the recession. On the other, despite signs inflation is on its way down, the Bundesbank is still constrained by money supply growth. As it never tires of explaining when setting out its ideological stall, current money supply growth is the determinant of inflation two or three years down the road.

To some extent, the latest M3, or broad money, figure is distorted – chiefly by the effect of the Bundesbank's interventions in the currency markets in recent months. This will feed through into the August number and will ensure that for a fifth month M3 growth will exceed the target.

"The big problem is that the Bundesbank has not successfully dealt with an increase in money supply which dates back to German reunification [in 1990]," says Mr Joachim Fels, economist at Goldman Sachs in Frankfurt "The reason we have high inflation now is because of monetary growth several years ago."

The Bundesbank's room for manoeuvre is helped by the widening of fluctuation bands within the exchange rate mechanism. The most likely next step is a cut of 50 basis points at most in the discount rate. This is currently at 6.75 per cent and a cut from this level could be justified on "technical grounds" because of the narrow margin between this rate and current money market rates.

"The Bundesbank likes to engage in practical psychology," says Mr Fels. "It must strive to keep hopes of further interest rate cuts alive. The only way it can do this is by giving the market less than it expects, and more slowly."

Rich pickings for Polish entrepreneurs

By Gillian Tett

THEY are usually aged between 36 and 45 years. Most have a background in science or engineering. And – perhaps inevitably – nine out of 10 are men. Three years after Poland embarked on its "big bang" policy of economic liberalisation, the new entrepreneurs are not only thriving, but providing the backbone of the country's attempts to emerge from recession.

Even more significantly – according to a recent study by the International Finance Corporation – the focus of their market skills is shifting. Instead of simply trading, as they did in the early days, in imported "luxuries" such as alcohol or frilly undergarments, Polish entrepreneurs are moving into manufacturing, producing goods ranging from car parts and plastics to homoeopathic remedies.

The IFC says the shift has left Poland's private sector arguably the best developed in east Europe, providing more than 50 per cent of Poland's GDP and employment.

For those who wonder whether this can be repeated elsewhere in eastern Europe, the IFC's case studies are illuminating.

The key to the Polish would-be capitalists is, the study claims, their economic "agility". Poland is apparently peppered with academics who have turned their hand to producing hot dog kiosks, farmers who have switched their skills from hop growing to spice marketing, and engineers who have moved from metal work to meat processing to publishing and back again.

With credit hard to raise, and interest rates high, most starting capital has come from family funds, often gained from speculative trading during the late 1980s.

Nevertheless, a familiar litany of problems remain: loans are difficult to obtain, trading bureaucracy is Byzantine, market information is scarce, and almost all entrepreneurs report being plagued by that old problem – the crackly telephone.

For those who hope that the swarms of post-Communist Russian, Romanian or Estonian street vendors will soon be following a similar path, the IFC issues a proviso.

Poland, it points out, had had a tradition of private agriculture and even some private business right through the Communist period. Many of these "new" entrepreneurs, it transpires, had been quietly operating for up to 10 years.

Coping with Capitalism: The New Polish Entrepreneurs. The International Finance Corporation, 1818 H Street, N.W. Washington DC.

Setback for Shell, Exxon

By Karen Fossli in Oslo

NORWAY'S Industry and Energy Ministry has rejected applications for new oil and gas exploration offshore acreage submitted by the Norwegian subsidiaries of Royal Dutch/Shell and Exxon Corporation, according to leaked reports.

Mr Finn Kristensen, industry and energy minister, is due tomorrow to announce the award of 50 blocks of new acreage offered under Norway's 14th licensing round. Both companies said yesterday they had submitted "selective" applications based on their respective technical and profitability assessments of the blocks on offer. Neither Shell nor Esso, Exxon's Norwegian subsidiary, said they had demanded "special" conditions or treatment of their applications.

Mr Einar Knudsen, director of information at Norske Shell, said the company had told energy officials that its return on investment for exploration drilling had to increase.

Both Norske Shell and Esso have criticised Oslo's tough fiscal and licensing regimes. Other foreign oil companies have said that Norway, which faces tough competition from emerging oil and gas producers, should provide incentives for maintaining foreign investment.

"It takes longer for opportunities in new areas to materialise and I think Norway is exploiting this opportunity to drive a hard bargain while it can," one industry official said yesterday.

● Norway's ruling Labour party, facing a general election next month, got a boost from a poll yesterday showing that Norwegians backed its controversial decision to seek membership of the European Community. Reuter reports from Oslo.

Troops will leave Lithuania 'today'

By John Lloyd in Moscow and Matthew Kaminski in Vilnius

RUSSIAN troops are to be withdrawn from the Baltic republic of Lithuania today on schedule, Mr Algirdas Brazauskas, the Lithuanian president, said yesterday in a national radio address.

A spokesman for Russian Presdent Boris Yeltsin later confirmed the troops' withdrawal, but refused to say if it would be today.

The normally good relations between Russia and Lithuania were soured earlier this month when Russia said it would suspend the withdrawal of 2,500 service personnel and their families because Lithuanian negotiators had insisted on raising the issue of compensation for damage done since the first Soviet occupation in 1940. No figure was mentioned, but Lithuanian newspapers reported that a sum of about $150bn was mentioned.

Mr Brazauskas said the question of compensation would be "the object of further talks" – a formula which appears to have satisfied Moscow.

Russia is in neither the mood nor any condition to make reparations for a Soviet past it disavows.

Evidence of this came yesterday when Mr Sergei Filatov, chief of staff to Mr Yeltsin and chairman of a commission to determine events which led up to the shooting down in 1983 of the South Korean civilian airliner KAL007 over Soviet airspace, said that the Soviet Union bore no guilt for the incident.

Mr Filatov said pilot error had taken the plane 350 miles off course, deep into Soviet airspace.

● Mr Hong Soon-young, South Korea's deputy foreign minister, said in Seoul yesterday that his government would reschedule debts owing to South Korea on cash loans of $1bn and tied credits of $470m, on which Russia has paid only $12.7m interest from a promised $36.8m payback.

A further $1.53bn of a $3bn aid package extended to the former Soviet Union in 1990 has been frozen at Russia's request, Mr Hong said. "They have said the interest rates and other conditions on the South Korean loans were unfavourable."

China to set up credit bank for capital projects

By Tony Walker in Beijing

CHINA is to establish a credit bank to fund large capital works projects, as part of long-awaited and extensive reforms expected in the moribund banking sector.

Mr Lou Jiwei, a senior official of the Commission for Restructuring the Economy, said at the weekend that the Long-Term Development and Credit Bank, planned for early next year, would fund projects in "vital sectors", such as those of energy and transportation.

Mr Lou, a close adviser to Mr Zhu Rongji, China's senior vice-premier in charge of the economy, also confirmed that an Export-Import Bank would be established in the new year to "stimulate" exports of machinery and electronics.

Announcement of the formation of the new "policy-lending" banks, plus indications that the People's Bank of China (PBOC) would have its functions as a central bank more clearly defined under a new central bank law, follows extensive consultation with officials of the World Bank, the IMF and other international institutions.

World Bank officials have urged China to relieve its specialised banks of the policy-lending burden for large capital works projects. "Priority investment, especially in long-gestation or very expensive projects, belongs to an institution similar to the policy banks" described by Chinese economists," a World Bank report said.

"These investments could be financed by government-guaranteed bonds. This would obviously be accompanied by re-focusing the attention of existing banks on commercial activities. This will require much-strengthened supervision capacity in the central bank," the report said.

Chinese officials indicated at the weekend this process was already under way, with emphasis on tightening the regulatory functions of the People's Bank of China under Mr Zhu's governorship.

Among the World Bank's recommendations is that the PBOC be shorn of its non-central bank functions such as ownership of securities companies and mutual funds to allow it to "focus on its primary role as a central bank", on the lines of the US Federal Reserve.

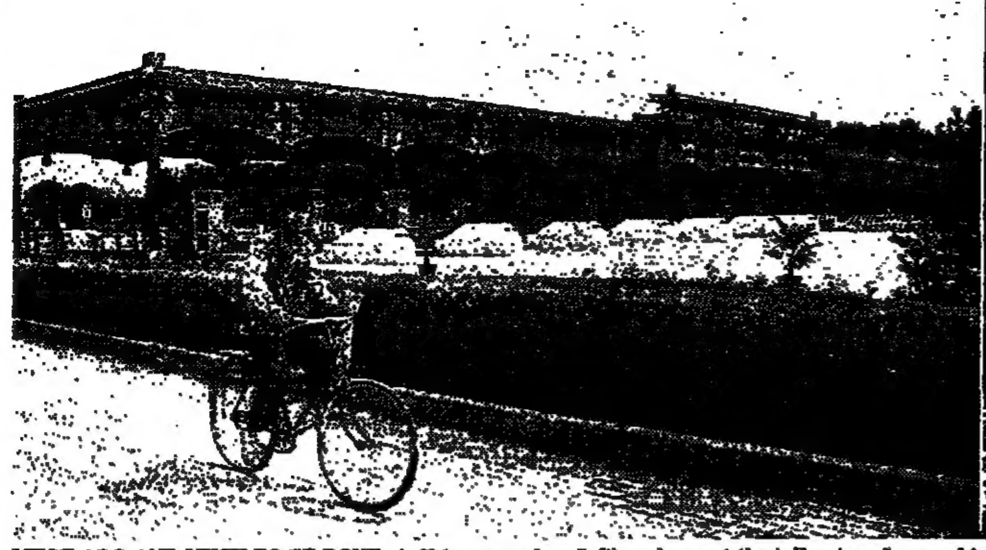
Western bankers in Beijing say that any step towards strengthening and streamlining the central bank's operations is welcome, but they are sceptical about plans for sweeping reforms of the banking sector.

They point out that China's "big four" specialised banks – the Industrial and Commercial Bank, Bank of China, Construction Bank and Agricultural Bank – are heavily burdened by non-performing loans to state enterprises.

Transformation of these institutions into commercial banks would require an enormous commitment of government funds which may well prove beyond the resources of the central government.

The World Bank, in its recommendations, suggested that subsidies for loss-making state enterprises and allocations for agricultural procurement be removed as "a matter of priority" from the responsibility of the banking sector.

"This type of lending," the bank said, "belongs to the budget."




MUCH ADO AND MUCH TO BE DONE: A Chinese worker (left) cycles past the toll gates of a new highway, near Beijing's international airport, due to be opened next month. Meanwhile, water spills at the weekend from a ruptured dam at a reservoir in China's remote north-western Qinghai province. The flood obliterated several villages, 223 people were killed and 180 were missing

Tighter watch on Mexican banks

MEXICO'S recently-privatised banks will issue quarterly reports to give investors a clearer picture of their financial health, according to the National Banking Commission, writes David Luhnow in Mexico City.

New regulations will force the nation's banks to issue, as of next month, reports that detail, among other things, levels of reserves and rates of bad loans, said officials.

Since the government bank privatisation ended a year ago, rates of bad loans have risen sharply.

Guatemalan call

Guatemalan President Ramiro de León has demanded that members of Congress and Supreme Court judges resign as part of his campaign to rid state bodies of corruption, writes Edward Orlebar in Guatemala City.

This follows weeks of criticism in the media and among civilian organisations, which have called for a purge of Congress and the court.

Malaysian fine

Mr Ibrahim Mohamad, a prominent Malaysian businessmen, has been fined M$500,000 (£131,000) for his share-dealing on the Kuala Lumpur market this year, writes Kieran Cooke in Singapore. He pleaded guilty to illegal dealing in Union Paper Holdings, a small paper mill operator listed on the second board of the Kuala Lumpur exchange.

Hurricane alarm

Thousands of people left islands off North Carolina as Hurricane Emily, swept in towards the US east coast yesterday, Reuter reports. The National Hurricane Center in Florida issued a hurricane watch for the coastline from mid-South Carolina to the Delaware border. Emily was located 350 miles south-east of Cape Hatteras and was moving west-northwest at nine mph.

Iraq weapon

UN weapons inspectors investigating Iraq's missile installations say they are struck by their remarkable similarity to Argentina's Condor II missile complex, closed in 1990 by President Carlos Menem, writes John Barham in Buenos Aires. UN officials recently in Argentina were quoted as saying the similarity of the production plants and missiles gave them insights into how the larger Iraqi project worked. Argentina, Iraq and Egypt co-operated closely in developing missile technology in the 1980s.

New homes sales down, trade deficit up, in US

By Michael Prowse in Washington

SALES of new homes in the US fell 5 per cent in July compared to June, raising new doubts about the health of the housing market, the Commerce Department said yesterday.

In a separate report, it said a surge in imports had resulted in a US trade deficit of $34.4bn (£23.2bn) in the second quarter, the biggest shortfall in more than five years.

The weakness of new home sales puzzled analysts, as it had followed a recent drop in mortgage rates to the lowest level in more than two decades and a report last week of a robust 5.4 per cent gain in sales of previously owned homes last month. Sales fell in all regions, not just the flooded parts of the Midwest.

Figures for June were also revised down sharply to show a gain from May of only 3.3 per cent, rather than the 11 per cent initially reported.

The unexpected weakness since May left sales running last month at a seasonally adjusted annual rate of 629,000 – far below Wall Street projections of about 675,000. For the first seven months of the year, however, sales were still nearly 7 per cent higher than in the equivalent period last year.

The trade deficit rose 17 per cent in the second quarter compared to the first, mainly because consumer and investment demand in the US is much stronger than in its recession-hit trading partners. Exports rose 1.4 per cent from the first quarter to $113.1bn; imports rose 4.7 per cent to a record $147.5bn.

The annualised deficit in the first half was $127.4bn compared with $96.1bn for the equivalent period last year.

Mandela refuses to punish ANC offenders in human rights cases

By Patti Waldmeir in Johannesburg

MR Nelson Mandela, president of the African National Congress, yesterday refused to punish ANC officials found guilty by the organisation's commission of inquiry into murders, torture and other human rights abuses in ANC prison camps in the 1980s.

The commission, which was appointed by Mr Mandela, last week called on the ANC to punish those involved in the deaths of 22 detainees, and other cases of abuse and injury, and to pay compensation to victims or their families. Mr Mandela rejected these recommendations, calling instead for a "Truth Commission" to investigate all cases of human rights abuse, including those involving government officials.

Mt Cyril Ramaphosa, the ANC secretary general, drew a distinction between abuses carried out in defence of apartheid, and those committed in the fight for liberation. Asked whether the ANC believed that the ends justified the means in cases of human rights abuse, Mr Mandela replied: "You can draw your own conclusions."

He said the ANC accepted "collective responsibility" for what happened. He went on to excuse the abuses by saying that they were committed "in an attempt to prevent violations of human rights by the other side". Mr Mandela said any compensation to victims would have to be paid by a future government, not by the ANC.

Meanwhile, he announced that Mr Thabo Mbeki, a leading moderate, had been elected national chairman of the ANC. This will boost Mr Mbeki's chances to succeed Mr Mandela as president. Mr Ramaphosa, another moderate, is the other possible successor, though he has come under increasing criticism for making too many concessions to whites.

Chile bank reform proposed

THE CHILEAN government has proposed a solution to the $4bn (£2.66bn) subordinated debt issue that has plagued domestic banking for a decade, writes David Pilling in Santiago.

Ten of Chile's commercial banks owe the central bank $3.9bn. This dates back to 1983 when the state took over their non-performing loans to prevent a collapse of the banking system. Banks have since been obliged to repurchase these debts yearly by handing over 70 per cent of their after-tax profits to the central bank.

A reform bill, to be sent to Congress today or tomorrow, seeks to end the repayment period after 40 years. Banks with a realistic chance of achieving this would continue to pay the 70 per cent of profits to the central bank, but would be subject to an "efficiency test" stipulating a minimum rate of profit. Those with less prospect of repurchasing all their outstanding debts within the 40 years – which include Banco de Chile and Banco de Santiago, two of the country's biggest – would issue convertible bonds to cover the shortfall. This would imply a dilution of existing shareholder stock, and is likely to be controversial in Congress.

In return for their agreement to new repayment terms, banks – participating voluntarily – would be allowed to take on new activities such as factoring, securitisation and setting up international finance consultancies abroad.

Nigerian government faces stern test

By Leslie Crawford in Lagos

THE INTERIM government of Nigeria faces the first real challenge to its authority today.

If a national strike called by unions and the pro-democracy movement can hold firm on the first working day after a long weekend, the economic pressures on the new government installed by the country's military will be considerable, for the main business and industrial centres, Lagos and Ibadan, will have been paralysed for nearly a week by absenteeism and strikes.

The Nigeria Labour Congress called its members out on Saturday to protest against the former military government's failure to return the country to full democracy. The congress wants the interim government to honour the result of the presidential election in June, which was annulled by Gen Ibrahim Babangida, the military ruler who stepped down last Thursday.

Oil workers have been on strike since Saturday, but production of crude for export was not thought to be affected.

Civil service unions say they will walk out from today.

Road transport is paralysed due to a chronic shortage of locally refined fuel.

The introduction last week of a two-tier price system for petrol, with a new grade costing 10 times the price of the current subsidised fuel, has led to panic buying.

Chief Ernest Shonekan, Nigeria's new head of government, on Sunday ordered the release of three prominent political prisoners and several journalists detained on conspiracy and sedition charges. But a military decree to ban several opposition newspapers and magazines is still in force.

Mr Beko Ransome-Kuti and fellow lawyers Mr Gani Fawehinmi and Mr Femi Falana had been jailed since July 7 for organising demonstrations against the cancellation of the presidential poll results. They support the claim to the presidency of Chief Moshood Abiola, the Moslem millionaire businessman credited with having won the contest.

The pro-democracy campaign is planning to hold rallies in the northern cities of Kano and Kaduna, where support for their demands has been lukewarm.

See editorial comment

Bond returns may be flattering to deceive

SOMETHING unprecedented in the post-war era has been happening over the last few years: bonds have been a better investment not only than cash but even than equities. The question is how long this performance can last.

A report* published in July by a British investment advisory boutique brings together the facts and assesses both the process and the prospects. The chart, taken from that paper, shows the value of an assumed investment in the Standard & Poor's composite index, with reinvestment of dividends, since 1957, relative to cash. Over the entire period the lucky investor would have earned 3½ times more in equities than in cash.

Not so the hapless investor in bonds. Over the same years the value of a US bond portfolio, with reinvestment, would have fallen by about a quarter, relative to cash. The UK offers a similar picture, although Germany, not surprisingly, is a country where bonds have been a somewhat better investment than cash.

Bad things, like good things, do come to an end. The turnaround for US bonds relative to cash came in the early 1980s, thanks to Paul Volker's disinflationary heroics at the Federal Reserve. More remarkably, global returns on bonds have outstripped those on equities since 1987, while returns on bonds have exceeded those in equities in each of the main financial markets since 1990. The advantage of bonds has been very small in the US, where the equity market has been buoyant, but huge in Japan. A Japanese investor who bet on the bond market in 1990 would have made 31 per cent per annum more than in the equity market, on average, since then. In the UK the margin in favour of bonds has been 5 per cent per annum, on average, over the period.

Theory suggests that *ex ante* returns on different assets should be the same, allowing for risk. So equities should be more profitable than bonds and bonds more profitable than cash over any long period. This is not what has tended to happen.

Furthermore, if the return on bonds is to be the same as that on cash, allowing for risk, a steep positively sloping yield curve, such as the one now in effect in the US, implies that bond prices are expected to fall and *vice versa*. If bonds have returned much less or more than cash, these expectations cannot have been fulfilled. Up to the early 1980s bond prices fell more than expected. Since then they have risen more than expected. The main reason for this is that inflation outstripped expectations for a long period. But since the early 1980s the reverse has been the case.

The authors of the study argue, however, that the reason for the market's mistakes has not just been unanticipated developments in inflation. The market has also not been processing the information available to it efficiently. In particular, bond prices should be relatively high when short-term interest rates are much below long ones, because bond prices should then be expected to fall, and *vice versa*. In fact, the yield gap has been a poor predictor of subsequent changes in bond prices. The authors of the report argue that they have been able to identify better predictors, which means that an active trader should be able to earn higher returns than a passive holder of bonds.

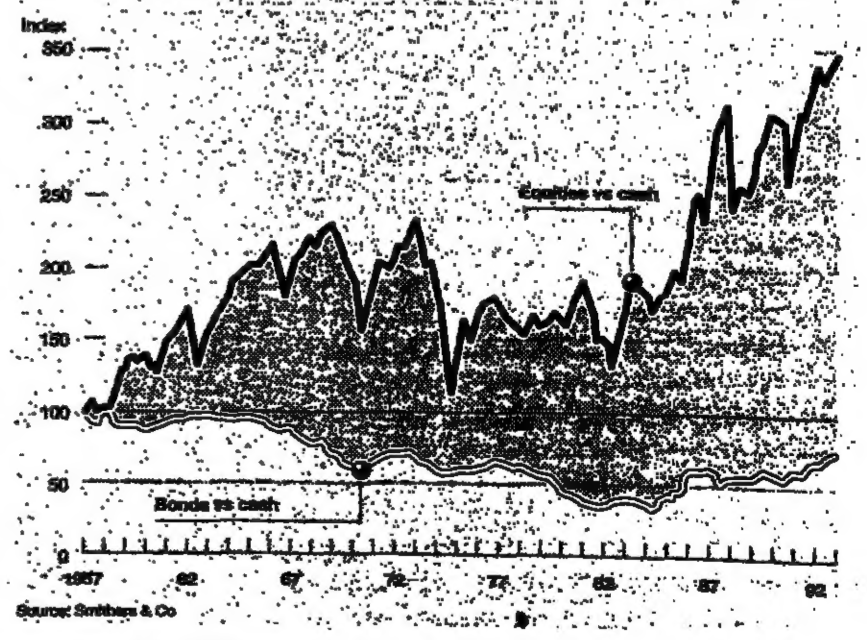
What now? Whether or not traders can outperform the market, the principal determinant of exceptionally high relative returns on bonds is bound to be unexpectedly low inflation (or unexpectedly low real rates of interest). Since the inflation expectation implied by present bond yields is already around 3 per cent in the US, the chances of further favourable inflation surprises may be relatively low.

At the same time a trading rule the report recommends is to hold bonds when the gap between bond yields and short rates has recently risen and hold cash when it has recently fallen. On that basis too, the chances of further high returns may be modest, at least on US bonds.

Martin Wolf

* *Andrew Smithers and Stephen Wright, The Outlook for Bonds. July 1993. Report No. 43, Smithers & Co, London. Tel: 071 377-3765; fax: 071 377-3292.*

Returns on bonds and equities relative to cash in the US



Source: Smithers & Co

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

	UNITED STATES					JAPAN				
	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1985	9.0	8.9	8.00	10.59	n.a.	5.0	9.3	6.62	6.51	n.a.
1986	13.5	8.3	6.49	7.67	3.43	6.9	8.2	5.12	5.35	0.84
1987	11.6	6.5	6.82	8.39	3.12	10.5	11.5	4.15	4.84	0.55
1988	4.3	5.2	7.65	8.84	3.61	8.4	10.4	4.43	4.77	0.54
1989	1.0	3.9	8.99	8.49	3.43	4.1	10.6	5.31	5.22	0.48
1990	3.7	5.3	8.06	8.54	3.60	2.6	8.5	7.62	6.91	0.65
1991	5.9	3.3	5.87	7.85	3.21	5.2	2.0	7.21	6.37	0.75
1992	12.4	2.0	3.75	7.00	2.95	4.5	−0.4	4.28	5.25	1.00
3rd qtr.1992	12.6	1.8	3.35	6.61	2.98	3.2	−0.5	3.90	5.10	1.06
4th qtr.1992	14.3	1.8	3.55	6.73	2.94	2.0	−0.4	3.67	4.78	1.03
1st qtr.1993	11.9	0.5	3.20	6.28	2.81	1.8	−0.4	3.29	4.34	1.00
2nd qtr.1993	11.8	0.9	3.18	5.98	2.80	3.2	1.4	3.09	4.55	0.83
August 1992	12.4	1.6	3.37	6.59	2.95	3.7	0.3	3.75	5.03	1.12
September	13.5	1.8	3.24	6.41	2.98	2.9	−0.5	3.74	4.99	0.98
October	14.4	2.0	3.32	6.58	3.02	2.5	−0.6	3.71	4.90	1.04
November	14.4	1.8	3.65	6.86	2.94	1.6	−0.6	3.65	4.76	1.05
December	14.2	1.5	3.67	6.75	2.87	1.9	−0.4	3.64	4.70	1.00
January 1993	13.4	1.0	3.26	6.59	2.87	2.4	−0.3	3.59	4.55	1.03
February	11.5	0.2	3.18	6.26	2.80	2.3	0.1	3.15	4.31	1.01
March	10.7	0.2	3.17	5.97	2.76	0.9	−0.4	3.13	4.19	0.97
April	10.8	0.3	3.15	5.96	2.81	2.4	0.5	3.08	4.42	0.85
May	12.0	1.1	3.14	6.02	2.81	3.9	1.5	3.09	4.64	0.82
June	12.7	1.4	3.25	5.94	2.80	3.4	1.4	3.10	4.58	0.82
July	12.7	1.5	3.20	5.79	2.80	3.7	1.7	3.11	4.40	0.81

	GERMANY					FRANCE				
	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1985	4.3	5.1	5.45	6.94	n.a.	8.2	7.4	10.03	11.74	n.a.
1986	10.0	8.3	4.64	5.90	1.79	6.9	6.8	7.79	8.74	2.85
1987	9.0	7.3	4.03	6.14	2.21	4.1	9.9	8.26	9.46	2.75
1988	9.7	6.4	4.34	6.46	2.61	3.9	8.4	7.94	9.08	3.69
1989	6.3	5.8	7.11	6.94	2.22	8.1	9.6	9.39	8.79	2.88
1990	4.5	4.5	8.49	8.71	2.11	3.7	9.0	10.32	9.92	3.19
1991	5.1	5.6	9.25	8.44	2.38	−4.7	2.8	9.62	9.03	3.58
1992	7.1	8.2	9.52	7.77	2.45	0.1	5.5	10.36	8.57	3.55
3rd qtr.1992	8.6	8.8	9.72	7.88	2.53	−0.2	4.8	10.58	8.90	3.67
4th qtr.1992	10.7	9.6	8.98	7.34	2.67	0.1	5.5	10.77	8.20	3.72
1st qtr.1993	9.6	7.5	8.31	6.87	2.42	0.6	5.2	11.83	7.66	3.38
2nd qtr.1993	9.5	8.6	7.68	6.73	2.24	1.2	2.8	8.00	7.08	3.33
August 1992	8.1	8.7	9.88	7.99	2.60	−1.2	5.4	10.39	9.06	3.71
September	8.3	9.3	9.50	7.65	2.62	−0.2	4.8	11.12	8.75	3.61
October	8.5	10.4	8.95	7.38	2.72	1.8	6.3	11.12	8.43	3.83
November	11.2	9.7	8.94	7.38	2.66	0.4	6.1	9.77	8.14	3.70
December	12.5	8.7	9.03	7.29	2.64	0.1	5.5	11.35	8.20	3.84
January 1993	9.5	7.7	8.60	7.10	2.58	0.9	5.1	12.16	7.93	3.58
February	9.2	7.3	8.39	6.94	2.43	0.6	5.4	12.12	7.78	3.40
March	10.0	7.6	7.98	6.59	2.27	0.6	5.2	11.27	7.33	3.19
April	8.1	8.7	7.92	6.63	2.23	−1.9	4.1	9.06	7.14	3.25
May	9.3	8.5	7.52	6.80	2.27	−2.0	3.2	7.64	7.16	3.39
June	10.1	8.5	7.60	6.77	2.22	1.2	2.8	7.32	6.95	3.35
July	10.1	8.8	7.24	6.57	2.09			8.06	6.72	3.26

	ITALY					UNITED KINGDOM				
	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money (M0)	Broad Money (M4)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1985	13.2	13.5	14.34	13.71	n.a.	4.7	13.2	12.32	11.03	n.a.
1986	10.5	8.2	13.25	11.47	1.41	4.0	15.3	11.02	9.97	4.35
1987	10.4	9.8	11.32	10.58	1.94	4.7	14.6	9.77	9.52	3.60
1988	7.8	6.9	11.24	10.54	2.71	6.8	17.0	10.41	9.69	4.48
1989	7.1	8.2	12.41	11.61	2.46	5.9	17.5	13.98	10.30	4.36
1990	9.3	9.1	11.98	11.87	2.84	5.3	16.0	14.82	11.53	5.07
1991	7.3	8.0	11.88	13.20	3.45	2.4	8.2	11.58	10.04	4.97
1992	8.7	7.5	13.86	13.29	3.63	2.3	5.2	9.73	9.09	4.91
3rd qtr.1992	5.9	6.8	16.14	13.83	4.02	2.4	5.3	10.39	9.21	5.21
4th qtr.1992	2.8	5.8	14.64	13.64	3.68	2.7	4.4	7.68	8.45	4.64
1st qtr.1993	2.8	6.2	11.88	13.13	3.04	4.4	3.3	6.43	7.97	4.35
2nd qtr.1993	2.4	6.0	10.82	12.48	2.48	4.2	3.6	6.00	7.92	4.04
1992 August	5.3	6.5	15.27	13.71	3.94	2.5	6.4	10.43	9.37	5.33
September	5.0	6.1	17.82	14.14	4.35	2.2	4.8	10.54	9.18	5.14
October	6.5	7.3	15.53	14.36	3.95	2.4	5.2	8.49	8.69	4.83
November	2.5	5.8	14.53	13.48	3.48	3.0	4.3	7.32	8.27	4.80
December	0.4	4.4	13.90	13.66	3.61	2.8	3.7	7.24	8.38	4.49
1993 January	2.2	5.4	12.73	13.46	3.26	3.9	3.1	7.04	8.33	4.48
February	2.9	8.3	11.51	13.03	3.01	4.5	3.3	6.23	7.97	4.36
March	3.5	6.8	11.41	12.92	2.86	4.9	3.6	6.04	7.65	4.24
April	1.8	5.8	11.48	13.13	2.75	4.8	3.5	6.02	7.81	4.08
May	2.3	6.1	10.80	12.50	2.53	8.3	3.9	6.03	8.06	4.04
June	3.0	6.1	10.22	11.87	2.15	4.4	3.3	5.95	7.88	4.01
July	3.4	6.5	9.64	11.12	1.99	4.8	3.6	6.01	7.48	4.03

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Interest rates: short-term, period averages of US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-lira, UK – 3-month Libor; long-term, period average yields on 10-year benchmark government bonds. Interest rates supplied by Datastream. Equity market yield: period averages of the gross dividend yield on the relevant FT-A world index.

هكذا من الاعلى

US still cautious on Mideast peace hopes

By George Graham in Washington

THE US remains outwardly cautious about the prospects for a preliminary self-rule agreement between Israel and the Palestinians, but US officials are more excited than they have been for some time about the chances of a breakthrough in the peace process.

As delegates gathered in Washington for the 11th round of Middle East talks, President Bill Clinton warned that apparent good news had often turned into disappointment.

"We've still got a long way to go," he said.

Mr Clinton said he could not comment until progress was more concrete. He said: "I don't know if I would call it an intervention, but we have certainly worked hard to be a handmaiden, or whatever the appropriate term is. We are involved, but our position is not at issue here and should not be discussed until the parties themselves work out their differences."

State Department officials, however, said that a meeting in California on Friday between Mr Warren Christopher, the Secretary of State, and Mr Shimon Peres, the Israeli foreign minister, had made it clear that "the parties are focused on choices that could produce real progress".

Mr Christopher's aides are clearly elated at the possibility


Christopher: victory hopes

that their boss, who has been vilified in the US press over his handling of the Bosnia crisis as a passive and unprincipled administrator, might score a diplomatic victory.

Officials told the New York Times that it was Mr Christopher's trip to the Middle East at the beginning of this month that gave new momentum to the peace talks.

"They needed the US to stimulate things. They have all needed an awful lot of assurance and hand-holding from the US," the newspaper reported a US official as saying.

Mr Christopher's trip turned into an exercise in damage control, as he sought to negotiate an end to Israel's assault on southern Lebanon, and even his aides found little heart to defend his confident assertion that the fighting in Lebanon had in fact "given a new burst of energy to the negotiations".

US officials said that the crucial success of the trip was in persuading President Hafez al Assad of Syria to advance talks with Israel on the future of the Golan Heights. They suggested that this might have encouraged Mr Yassir Arafat and the Palestinian Liberation Organisation to participate more actively in talks with Israel.

This explanation is not universally shared in Washington, however.

"The main pressures on Arafat are financial. The people who have leaned on him are the Saudis and the Egyptians," said Dr Michael Hudson, professor of Arab studies at Georgetown University.

Dr Hudson warned that Israel's proposal to give the Palestinians limited self-rule in Jericho and the Gaza strip faced serious opposition among Palestinians in the occupied territories, and not just in the militant Hamas movement.

"Much depends on how the US interprets its role as a full partner in the peace process, and how far they are willing to go to make sure this is not the last stop on the road," he said.

Signs of progress expose Palestinian divisions

By David Horovitz in Jerusalem and agencies

IT DID not take long to bring Palestinian rifts into the open, following the signs of progress yesterday in the peace process.

Conflicting signals emerged from the PLO itself – euphoria from Mr Bassam Abu Sharif and Mr Yasser Abed-Rabbo, aides to the chairman Mr Yassir Arafat, contrasting with pessimism from political department head Mr Farouk Khaddoumi.

Mr Ahmed Jibril's Popular Front for the Liberation of Palestine-General Command was more extreme and threatened to assassinate Mr Arafat. The PLO responded by saying the guerrilla group was out of touch with the needs of Palestinians.

The Hamas Islamic Resistance movement, which has its strongholds in Gaza, has said it will do everything to block a deal. The fundamentalist group, which opposes the US-brokered Middle East peace talks, is the main rival of the Palestine Liberation Organisation in the Israeli-held West Bank and Gaza strip. Its main stronghold is believed to be in Gaza.

"This project opens the door wide to inter-Palestinian fighting and civil war because it does not fulfil their aspirations and liquidates their cause," Mr Mohammed Nazzal, the Hamas representative in Jordan said.

Mr Abdel Aziz Rantisi, the spokesman for the 400 deported Palestinian radicals stranded since last December in southern Lebanon, said in a telephone interview with the Associated Press yesterday that Moslems throughout the world rejected any deal recognising Israel. "This agreement will not prevent the Islamic generation, now or in the future, from fighting to restore its rights in Haifa, Acre, Lydda, Jaffa and Jerusalem," he said.

Mark Nicholson adds from Cairo: The Egyptian government, which has played an increasingly important role in brokering Arab-Israeli talks, yesterday welcomed the "Gaza-Jericho first" agreement as a move towards achieving Palestinian self-rule in the occupied territories. But it emphasised that this should be seen as a first step.

In the first reaction from any Arab government to the proposed deal, Mr Amr Moussa, Egyptian foreign minister, said: "Any withdrawal from any part of the Arab land occupied [by Israel] since 1967 is a step forward". It is a step that does not meet all requirements on its own, but is a move towards achieving self-rule in all the Palestinian occupied territories."

He said a full solution should embrace the terms of the original Madrid formula for the peace talks, the full satisfaction of United Nations resolutions and an acceptance by Israel of the principle of "land for peace". "The Gaza-Jericho proposal is under careful study and if the Palestinians approve it, we will approve it too. The decision is a Palestinian one," the minister said.

Mr Arafat was due to arrive in Cairo last night for talks with Mr Moussa and is due to meet Mr Hosni Mubarak, the Egyptian president, this morning at the presidential palace in Alexandria. Mr Moussa, before yesterday's talks, put his government squarely behind the PLO leadership in the face of hardline Palestinian opposition to the proposal, praising Mr Arafat as "working hard to reach a comprehensive settlement".

Peres defends agreements before an astonished Knesset

'The world has changed completely'

By David Horovitz in Jerusalem

"THIS is the beginning of the end of our 100-year dispute with the Palestinians. And you, yesterday's men, can't see five steps forward."

With these words, before a raucous Israeli Knesset yesterday, Israel's foreign minister, Mr Shimon Peres, hit back at his critics on the opposition benches, and defended agreements for granting Palestinian autonomy in the occupied territories. "The world has changed completely," shouted Mr Peres at members of the opposition Likud, "and only you haven't realised it."

News of the agreements between Mr Peres and the Palestine Liberation Organisation (PLO) stunned almost everyone. When Mr Peres first disclosed the agreements to his cabinet colleagues on Sunday morning, jaws dropped. Mr Elyakim Rubinstein, the man who has led Israel's negotiators through almost two years of unproductive dialogue with the Palestinians in Washington, was said to have been "flabbergasted" at what had been achieved behind his back, and threatened to resign.

No sooner had the first shock waves passed, than the opposition reacted furiously. Unimpressed by government assurances that not a single settlement would be moved during the planned five-year autonomy period, settlers' leaders in the West Bank and Gaza Strip have vowed to fight an "escalating struggle" to prevent what they say will be the creation of an independent Palestinian state.

One settler rabbi, Eliezer Melamed, went further, warning of civil war if the autonomy plans go ahead. The first fruits of the public struggle were evident last night: a rowdy demonstration outside the prime minister's office.

Right-wing Knesset members have been united in their demands for new elections, claiming that the prime minister, Mr Yitzhak Rabin, has no mandate for making deals with the PLO. Mr Benjamin Netanyahu, the Likud leader, urged the government in yesterday's stormy Knesset debate to "go to the people. Tell them the truth."

Mr Peres's cabinet colleagues, by contrast, have been almost unanimous in their delight at the foreign minister's progress, many echoing his own talk of a "major breakthrough". Well aware that public opinion here remains sensitive to both the idea of territorial compromise and direct contacts with the PLO, several ministers – including Mr Rabin himself – have taken pains to stress that the agreements are not a harbinger of a PLO state and that Israel will not formally recognise the PLO unless it renounces terrorism and deletes various anti-Israeli sections of its charter.


Reuter
Israeli prime minister Yitzhak Rabin briefs coalition partners ahead of the cabinet vote on the "Gaza-Jericho first" proposal

Almost two decades of general elections have shown that public opinion is divided between those who regard Israeli control of the territories as crucial to its security and those who believe the state can only prosper once the Palestinians are given self-rule. An instant survey, conducted overnight by the Yediot Ahronot tabloid, showed that this division persists, with 53 per cent of those polled saying they support the "Gaza and Jericho first" autonomy proposals, and 45 per cent against.

See Editorial Comment

Details of draft accord

- Self-rule will begin first in the occupied Gaza Strip and West Bank town of Jericho, where Palestinians will have what Israel describes as full autonomy. They will take over most functions of the Israeli military government including internal security and policing.
- The principle of "early empowerment" will apply to the rest of the West Bank. Palestinians will take control of five spheres of daily life – health, education, welfare, tourism and culture – and perhaps others, depending on the outcome of negotiations.
- The Israeli army will redeploy to agreed areas, withdrawing from all Palestinian population centres but remaining to protect Jewish settlements on the outskirts of Gaza and Jericho.
- Israel will keep control of the Gaza-Egypt border crossing and the Allenby bridge near Jericho, linking the occupied West Bank to Jordan.
- The status of Jerusalem, which thwarted earlier talks on self-rule, will be left to negotiations on the permanent arrangement for the occupied territories, which will begin two years after the signing of the joint declaration of principles.
- Expanded authority over Gaza and Jericho as well as early empowerment in the rest of the West Bank could be implemented within weeks of signing the document on the table at the 11th round of Middle East peace talks, starting today in Washington.
- Palestinians will elect a council to administer self-rule at least nine months after the declaration of principles is implemented.
- The seat of the administrative council will be in the West Bank town of Bethlehem.

Timex faces court challenge on sackings

By Robert Taylor, Labour Correspondent

TIMEX UK, an offshoot of Timex Electronics of the US, faces a legal challenge from its dismissed workers after announcing at the weekend the closure of its circuit-board production plant at Dundee in eastern Scotland.

Mr Jimmy Airlie, national officer for the Amalagmated Engineering and Electrical Union (AEEU) in Scotland, said yesterday that the union planned to take the company to court and seek redundancy payments and financial compensation for its dismissed workforce.

"It is an absolute scandal that a company can provoke a dispute to force its workers to accept vastly inferior pay and conditions or avoid the normal costs of a plant closure, " he said.

"It is time something was done about situations like this. Timex provides us with a test case." The union intends to press the cases of the 343 Timex workers before industrial tribunals with claims of unfair dismissal. The existing pension rights of the Timex workforce were safeguarded, but none of those dismissed last February will receive any redundancy pay. The AEEU has been taking legal advice throughout the dispute.

THE USE of secret strike ballots has been an important cause of the decline in industrial conflict in Britain over the past 10 years, says a survey of negotiators from 25 trade unions representing more than 5m workers. It was carried out by the Centre for Economic Performance at the London School of Economics. Unions have been obliged since 1984 to hold ballots before calling strikes.

Timex also went to court on numerous occasions to safeguard its legal rights in the face of what it saw as intimidation and violence through mass picketing.

However, the union has won a number of judgments during the often fierce legal battles. Only last week, Timex was compelled to lodge £40,000 as security in advance of any compensation awards made by industrial tribunals.

In a statement on Sunday, Timex said it deeply regretted closing its production facilities in Dundee after 47 years. Local strike leaders vowed to continue their campaign against Timex by encouraging a global boycott of its products.

Timex's decision to hasten closure reflects the bitterness surrounding a dispute that produced some of the worst scenes of picket line violence in Britain for years.

The Timex workers were all dismissed on February 18 when they refused to support a management-imposed wage freeze. A substitute workforce was hired by Timex and bussed into the plant through picket lines.

Pickets outside the Timex plant in Scotland are greeted with notices announcing its closure

● Almost half the people in Britain who have jobs remain concerned about the prospect of becoming unemployed during the next 12 months, says the latest monthly survey on redundancy commissioned for the Financial Times and Industrial Relations Services and conducted by MORI, the polling organisation.

The findings indicate widespread scepticism about the strength of the economic upturn. Last month 47 per cent of the sample of 1,007 adults said they were very or fairly concerned at the risk of joining the unemployed.

BRITISH ASSOCIATION FOR THE ADVANCEMENT OF SCIENCE

Progress in medicine 'threatened'

By Clive Cookson, Science Editor

ANTI-SCIENCE feeling among the public, politicians and health policymakers is threatening the advance of medical sciences into "the most exciting and productive phase in their long history," Sir David Weatherall, Regius Professor of Medicine at Oxford University, warned last night.

He was making the presidential address to the annual meeting of the British Association for the Advancement of Science at Keele University in the Midlands. "It would be a tragedy if this mood of disillusionment with the basic medical sciences, and science in general, were to impede progress as we move into the next millenium," he said.

Health policymakers were taking an increasingly short-term view of improving patient care, Sir David said. They were also turning their backs on research, as the recent UK government policy paper on the state health service showed. "Research is barely mentioned," Sir David commented.

"In the resulting marketplace economy of some of our teaching hospital trusts, it is already clear that – presumably because it poses a risk to competitiveness – research is going to be very low on the agenda," he continued.

He believed the health department's new research strategy was founded on a feeling that high-technology medicine was having a dehumanising effect and that much more effort should go into preventive medicine and the needs of individual patients.

"Because these changes are occurring at a time when society is disillusioned with science, and when support for medical research is so limited, there is a genuine danger that the pendulum may swing too far and that, in our new customer-driven approach to medical research, the vital role of the basic medical sciences may be neglected."

Sir David said public disillusionment with medical science was due partly to a stream of over-optimistic claims about the speed with which research breakthroughs would benefit patients.

Plants may clean contaminated land

By Nuala Moran

PLANTS which take up toxic metals as nutrients could be used to clean contaminated soils. The crop would then be harvested and metal extracted for recycling.

Professor Steven McGrath of the Agricultural and Food Research Council's Institute of Arable Crops Research described the experimental process – called green remediation – to the British Association meeting.

His research team has tested a number of plants for zinc uptake on soils polluted by heavy metals from London sewage over 20 years. The most efficient plant, alpine pennycress, reduced zinc to acceptable levels after nine croppings. Prof McGrath said that if intensive cultivation was used, the same result could be achieved in three years.

Existing methods of physical and chemical treatment to remove soil pollution are expensive and also alter the soil structure, leaving it unsuitable for cultivation. Using green remediation techniques, a hectare of contaminated soil could be cleaned up for £5,000, leaving it fertile, whereas conventional treatment costs £18,000 per hectare.

Prof McGrath suggests that plants could be genetically engineered to speed up the rate of remediation.

Optimism 'high' in small companies

By Daniel Green

SMALLER companies in Britain are more confident of economic recovery than their counterparts in the rest of Europe, a survey has found.

The survey by 3i, the investment capital group, and Cranfield School of Management found that while less Spanish and German companies now expect a decline in profitability over the next six months French and Italian businesses have become more pessimistic since the last survey six months ago.

The different views are reflected in investment plans over the next six months. UK companies plan to spend more on training, marketing and research and development. The number reporting an increase in R&D has more than doubled. In France, budgets are falling in these areas and most companies expect to cut their training programmes.

Professor Paul Burn of the Cranfield School of Management said: "UK companies are anticipating recovery and are doing things that will contribute to it."

But he warned against complacency, pointing to differences in expectations on prices. French companies expect falling prices and low wage increases while UK companies envisage price rises and Germany has the highest proportion of companies expecting wage rises.

A report today from National Westminster Bank says that growth in the north of the UK will match that in the south over the next few years, thanks to the manufacturing sector.

Mr David Kern, NatWest's chief economist, says: "Over the period 1994 to 1998, I expect growth to average 2.1 per cent [per year] in the northern and southern UK regions against 2.5 per cent in central Britain."

He expects manufacturing output to grow at an above-average 3.5 per cent and that northern and central Britain will have an above-average share of manufacturing.

Britain in brief

Major faces pressure from right wing

Three ministers are to speak at meetings organised by Conservative Way Forward, a Thatcherite group, during the Tory party's annual conference in October, intensifying pressure on Mr John Major, the prime minister, from the right wing of his party.

The group's magazine recently contained a vigorous attack on Mr Major's leadership from Lord Parkinson, a former cabinet minister who is now the group's chairman.

Mr Peter Lilley, the social security secretary, is the most senior of the three ministers who are to address the group. The others are Mr Michael Forsyth, a junior employment minister, and Mr Neil Hamilton, a junior minister at the trade and industry department with responsibility for deregulation. All will speak on matters within their own responsibilities.

Executive may face new action

The Serious Fraud Office is to consider a fresh prosecution of Mr Michael Robinson, the former managing director of collapsed mortgage broker Homes Assured, after the conviction of two of his fellow directors for fraudulent trading.

The SFO, which handled both the investigation and the prosecution of Homes Assured's directors following its collapse in 1989 owing £10.7m to creditors, said it would decide on the matter within the next month.

The Department of Trade and Industry may also restart civil actions against seven former Homes Assured directors, including Sir Edward du Cann, a former Conservative party chairman, to bar them from holding directorships.

The Homes Assured trial concluded on Saturday with the conviction of Mr Anthony Dobson, founder of the company that helped council tenants to buy their properties, and Mr Keith Woodward, its former finance director.

The two men were convicted of trading while the company was insolvent. Mr Dobson was also found guilty of two charges of procuring the execution of a security by deception, and Mr Woodward was convicted of furnishing false information.

The convictions came at the end of a four-month trial, but the jury was unable to reach a verdict on Mr Robinson on the charge of fraudulent trading.

Broader stance against crime

POLICE AUTHORITIES will be told to find ways of involving the public in the fight against crime Mr Michael Howard, home secretary, said. His comments came after a Gallup poll in The Daily Telegraph showed that three quarters of those questioned thought vigilante action was sometimes justified.

The poll also found widespread dissatisfaction with aspects of the handling of crime by the police and the criminal justice system. "We do not want vigilantes but we do want vigilance," Mr Howard said on BBC radio.

Small bomb is found in City

Terrorists breached the City of London's security ring and planted what police called a "small device" behind a hoarding in Wormwood Street. Police were alerted by a telephone call from a man with an Irish accent who used a recognised code word. The bomb squad carried out a controlled explosion on Saturday and there were no injuries.

The latest bomb attempt follows the creation last month of vehicle checkpoints around the City, and the blocking of many roads into it, in response to previous terrorist explosions.

Books lose out

The pleasure of reading is declining among UK schoolchildren except in Scotland, says a survey of 679 children and 578 grandparents commissioned by the Birds Eye frozen food company.

ECONOMICS

Markets seek evidence of US recovery

A RUSH of statistical and survey data this week should enable economists and investors to reappraise the state of the US recovery and establish whether the Wall Street's recent strength is anchored in fundamentals.

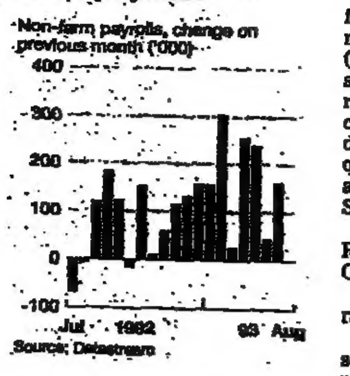
Markets will be on tenterhooks for Friday's key employment data for August although economists warn that the important non-farm payrolls figure may be inflated by temporary summer hiring. Tomorrow's National Association of Purchasing Managers' survey is expected to point to only moderate output growth as manufacturers approach the autumn, while a slight softening is forecast in today's consumer confidence index.

In Europe, attention will focus on France's unemployment report and whether the expected poor outturn will prompt the government of Mr Edouard Balladur to exploit the increased room for manoeuvre in the European Monetary System and ease French monetary conditions.

A quiet week is expected in the UK with one bullish indicator: the M0 narrow money figures on Friday are expected to keep growing faster than the government's 0 to 4 per cent monitoring range.

US employment

Non-farm payrolls, change on previous month ('000)



Source: Datastream

The main economic statistics and events of the week follow. The figures in brackets are the median of economists' forecasts from MMS International, the financial information company.

Today: US, Preliminary 2nd quarter GDP (up 1.2 per cent), GDP deflator (2.6 per cent), after tax corporate profits; August consumer confidence (57.2), Chicago NAPM, farm prices.

Japan, economic ministers meeting; July housing starts (up 1.8 per cent on year), construction orders, construction starts, industrial production (down 0.1 per cent), shipments; mid-August wholesale prices.

Canada, June real GDP at factor cost (up 0.1 per cent on month); 2nd quarter real GDP (up 2.5 per cent on quarter at seasonally adjusted annual rate), consumption (up 1.5 per cent on quarter, SAAR), GDP deflator (up 1.1 per cent on quarter, SAAR), current account (C$25.4bn deficit, SAAR)

Switzerland, GATT Uruguay Round negotiators meet in Geneva.

Finland, July unemployment rate (18.7 per cent).

Wednesday: US, July personal income (up 0.3 per cent), personal consumption expenditure (up 0.3 per cent), construction spending (up 0.2 per cent); August NAPM index (50.0)

UK, purchasing managers' index from Chartered Institute of Purchasing and Supply (53 per cent); Halifax July house price index; June overseas travel and tourism; July advance energy statistics.

Thursday: US, July factory orders (down 1.8 per cent), inventories; initial claims week ended August 28 (333,000); state benefits week to August 21; money supply week ended August 23 (M2 up $2.8bn).

UK, August official reserves (up $100m); cyclical indicators.

Australia, July retail trade (up 0.4 per cent).

Friday: US, August non farm payrolls (up 150,000), manufacturing payrolls (down 10,000), hourly earnings (up 0.2 per cent), unemployment rate (6.9 per cent), average workweek ; July leading indicators (down 0.1 per cent); August 21 - 31 auto sales (6.8m), truck sales.

Germany, August seasonally adjusted unemployment (west up 35,000), vacancies (west down 3,000); July employment (down 50,000).

UK, August M0 (up 0.4 per cent on month, 5.4 per cent on year); July final money supply; family spending survey 1992.

Canada, August foreign exchange reserves (down $1.7bn).

Rest of the Week: Japan, July current account and trade balance.

Germany, July industrial production (down 0.2 per cent on month), manufacturing output (flat); GFK July consumer climate.

France, July unemployment rate (11.7 per cent); May trade balance (Fr5.5bn surplus).

Italy, June wholesale prices (up 5.1 per cent on year), producer prices (up 4 per cent); August consumer prices (up 4.6 per cent)

Peter Norman

RESULTS DUE

FORECASTS vary sharply over the interim results of **HSBC Holdings**, the parent of Midland Bank, to be announced today. Pre-tax profit estimates range from about £1bn to about £1.3bn, both substantially higher than last time's £521m.

Midland has already revealed profits up at £385m (£60m) and Hang Seng Bank has weighed in with HK$2.75bn (HK$2.34bn). Some £200m from a favourable HK dollar exchange rate will also be included. The only possible black cloud could be China's cooling economy.

Sun Alliance, the composite insurance company, is expected to post a return to interim pre-tax profits on Thursday of £30m-£80m compared with a loss of £114.1m a year earlier. Rises in premium rates, falling expenses and lower claims frequency are behind the turnround. Sun Alliance's balance sheet should also show a considerable improvement following the strong rise in the UK equity market to which the group is heavily exposed.

Bowater, the packaging and industrial films group, is expected to announce a strong increase in interim pre-tax profits from £62.4m to between £85m and £90m on Thursday. Much of the rise is likely to be accounted for by the contribution from Specialty Coatings International, the US coatings company bought for $434m earlier this year, although estimates differ of how large this contribution will be.

Analysts are hoping for evidence from the company that SCI has been integrated into the group and is performing well. The interim dividend is forecast at 5p, from a restated 4.7p last year.

Analysts expect **Ladbroke Group** to report a fall in pre-tax profits for the first half on Thursday. Last time's profits will be restated under FRS 3 to about £81.5m to account for estimated hotel disposals and this time forecasts range from about £68m, if there is a higher interest charge, to around £74m. The one bright spot should be UK racing. The dividend should be held at 4.92p.

Rolls-Royce, also reporting on Thursday, is set to reveal operating profits sharply lower at about £30m (£44m), affected by the conditions in the aerospace and industrial power markets. Including exceptionals should result in flattish pre-tax profits of about £20m.

Reckitt & Colman, the mustard-to-lavatory cleaner group, is expected to show an increase in interim pre-tax profits to around £150m (£134.2m) when it reports on Thursday. The shares have been poor performers with worries about prices squeezed by retailers, the slowdown in the European economies, and longer term concerns about the value of brands.

Burmah Castrol is reporting interim results the same day and is expected to announce net profits of between £44m and £46m. The group's German operations, which since April have had a contribution from Tribol, the industrial lubricants bought from ICI for £31.7m, are going to be watched carefully.

UK COMPANIES

■ TODAY

COMPANY MEETINGS:
Latham (James), Leeside Wharf, Clapton, E., 12.30
Marling Inds., The Chartered Accountants' Hall, Moorgate Place, E.C., 10.00

BOARD MEETINGS:
Finals:
Bellwinch
Throgmrtn 1000 Smallst Cos
Interims:
Admiral
Crane Europe
Ferry Pickering
HSBC
Henlys
Macfarlane
Owen & Robinson
Rhino
Robinson Bros.
Severfield-Reeve
Simon Eng.

■ TOMORROW

COMPANY MEETINGS:
Claybithe, Naval & Military Club, 94 Piccadilly, W., 12.00
Debenham Tewson & Chinnocks, Intercontinental Hotel, 1 Hamilton Place, Hyde Park Corner, W. 11.00
Dudley Jenkins, 2A Southwark Bridge Office Village, Thrale Street, S.E., 10.30
Eve Group, Minster House, Plough Lane, S.W., 10.30
Sterling Publishing, 15 Portland Place, W., 10.00

BOARD MEETINGS:
Final:
Union Square
Interims:
Anglo Pacific Res.
Burford
Calderburn
Cookson
Courtaulds Textiles
Dixon Motors
English & Overseas Props.
INSTEM
Invergordon Distillers
Johnston Press
Page (Michael)
Persimmon
Plantsbrook
Provident Financial
Senior Eng.
Waterford Wedgwood

■ THURSDAY SEPTEMBER 2

COMPANY MEETINGS:
Carclo, Post House, Near Wakefield, 4.00
Hadleigh Inds., Novotel Hotel, Ipswich, 1.00
Prism Leisure, The Registry, Royal Mint Court, E.C., 10.00
Slam Selective Growth Trust, The Cazenove Conference Suite, 4 Kings Arms Yard, E.C., 10.30
Vega Group, Montague Park Hotel, 12-20 Montague Street, Bloomsbury, W.C., 4.30

BOARD MEETINGS:
Final:
Isotron
Interims:
American Trust
Aran Energy
Ashley Grp.
Bowater
British-Borneo Petrlm.
Burmah Castrol
Ladbroke
Microvitec
Northern Eng.
PCT
Palon
Reckitt & Colman
Rolls-Royce
Sun Alliance
Vickers
Yorkshire Food

■ FRIDAY SEPTEMBER 3

COMPANY MEETINGS:
Fletcher King, Stratton House, Stratton Street, W., 12.00
GEC, The London Hilton, 22 Park Lane, W., 12.00
Hobson, Holiday Inn, Berkeley Street, Piccadilly, W., 10.00
Learmonth & Burchett Management Systems, CBI Conference Centre, Centre Point, 103 New Oxford Street, W.C., 10.30
Victoria Carpet, Green Street Kidderminster, 3.00
Wessex Water, Assembly Rooms, Barnett Street, Bath, 11.00

BOARD MEETINGS:
Finals:
Black (Peter)
China & Eastern Inv.
Stavert Zigomala
Interims:
Laird
Pittencrieff
Suter

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

DIVIDEND & INTEREST PAYMENTS

■ YESTERDAY

Amdahl Corp. $0.125
Bank of Montreal C$0.26
Commonwealth Bank of Australia 8¾% Nts. 1994 Ecu437.5
Throgmorton Tst. 0.9p

■ TODAY

Allnatt Lon. Props. 10½% 1st Mtg. Deb. 1994/99 £5.25
Automated Sec 5% Cv Rd Pf 2.5p
Bankers Inv. Tst. 0.9p
Bank of Nova Scotia Flg. Rate Sb. Cap. Db. 2085 $177.6
Bank of Scotland Und. Var. Rate Nts. $113.8
Barclays O'seas Inv. BV 6% Gtd. Bd. 1998 Y60000
Baring Tribute Inv. 1.7p
Berkeley 4.35p
BP Amer 11¼% Gtd Nts 1994 A$111.25
Bradford & Bingley Bldg. Soc. Flg. Rate Nts. 1994 £156.16
Cambridge Water 9¼% Rd Db '92/97 £1.51712
Chaner Cons. 15p
Chase Manhattan Flg. Rate Sb. Nts. 1997 $94.01
Chemical Bank Flg. Rate Sb. Cap. Nts. 1994 £78.6
Chemical Banking Corp. Flg. Rate Sen. Nts. 1999 $46.67
Collateralised Mortgage Sec. (No. 5) Mtg. Bkd. Flg. Rate Nts. 2027 £149.36
Do. (No. 7) Class A1 Mtg. Bkd. Flg. Rate Nts. 2028 £80.56
Do. Class A2 Mtg. Bkd. Flg. Rate Nts. 2028 £167.55
Do. Class A3 Mtg. Bkd. Flg. Rate Nts. 2028 £170.15
Do (No. 9) Class A1 Mtg. Bkd. Flg. Rate Nts. 2033 £33.62
Do. Class A2 Mtg. Bkd. Flg. Rate Nts. 2033 £167.55
Do. Class A3 Mtg. Bkd. Flg. Rate Nts. 2033 £169.37
Contra-Cyclical Inv. 2.25p
Cullens Hldgs. 0.5p
Danae Inv. Tst. 4.575p
Derby Tst. 6.2683p
Eastern Intl Inv Db '82/97 £3.982192
Ecclesiastical Insce 13% Db 2018 £6.5
Excalibur 11½% Prf. 5.75p
First Chicago o'seas Fin. NV Gtd. Flg. Rate Sb. Nts. 1994 $138.54
Fujitsu 4¾% Bd. 1994 (with wts.) $487.5
Do. 4¾% Bd. 1994 (without wts.) $487.5
Gen. Motors Acceptance Corp. of Canada 10% Nts. 1995 C$100
Gibbon Lyons 7% Cv Rd Pf 3.5p
Glasgow Inc. Tst. 0.6p
Goldsmiths 0.3p
Great Western Finl. $0.23
Halifax Bldg. Soc. Flg. Rate Ln. Nts. 1996 £78.9
Do. Flg. Rate Ln. Nts. 1996 (Sers. A) £26.93
Hill Samuel Fin. BV Flg. Rate Nts. 1996 $271.25
Honda Motor 5¼% Cv Bd 1996 $131.25
Do. 5½% Cv. Bd. 1997 $137.5
IFG IR0.25p
Intercare 0.7p
Johnson & Firth Brown 11% Un Ln '93/98 £4.56
Kingfisher 8½% Cv Un Ln 2000 £2.86438
Kitty Little 1p
Lloyds Bank Prim. Cap. Und. Flg. Rate Nts. (Sers. 2) $82.36
Do. Prim. Cap. Und. Flg. Rate Nts. (Sers. 3) $174.17
London & Assoc. Inv. 0.53p
Lon. & St. Lawrence Inv. 5% (3½% net) Pf. 1.75p
Mitsui O. S. K. Lines Flg. Rate Nts. 1997 Y94010
Morgan Grenfell Und. Prim. Cap. Flg. Rate. Nts. $190.52
Natl Westminster Bk 7% (4.9% net) Pf 2.45p
Do. Prim Cap Flg Rate Nts Ser.C $90.71
Nationwide Bldg. Soc. Flg. Rate Nts. 1996 2nd Sers. £26.93
Neste Oy Flg Rate Nts 1994 £271.25
New Brunswick (Province of) Flg. Rate Nts. 1994 C$13.85
New Zealand 9% Nts. 1994 $900
NHL (1) Secs. Dtd. Int. Mtg. Bkd. Flg. Rate Nts. 2028 £254.81
Nippon Telegraph & Telephone Corp. 10⅝% Nts. 1996 $106.25
OLIM Cnv. Tst. 4.3p
Ossory Ests 12½% Bds 1998 £16421.64
Parkland Textile 4.2% Pf. 2.1p
Prowting 14½% Pf. 7.25p
Rugby Gtd Flg Rate Nts 1997 $9480.21
Rowe Evans Invs. 2p
Royal Bank of Canada Flg Rate Debs 2005 $28.89
RPH 4½% Un Ln '04/09 £2.25
Do. 9% Un Ln '99/04 £4.5
Sanwa Bank Sb Flg Rate Nts 2000 $940.1
Sanyo Elect Flg Rate Nts 1998 Y94010
Scott Pickford 0.8p
Second Market Inv 2½% Cv Un Ln 1994 £1.25
Seiyu 7¼% Cv. Bd. 1996 £36.25
Sphere Inv. Inc & Res Cap 0.75p
Do. Share Package Uts. 6p
State Dev. Institute 1-⅛% Gtd. Bd. 2000 $525
Sumitomo Bank Intl. Fin. NV Gtd. Flg. Rate Nts. 2006 $1943.96
Do. Gtd Flg Rate Nts 2007 $1943.96
Temple Bar Inv. 6% Cv Un Ln 2002 £3
TGI 1p
3i 11¼% Gtd. Bd. 1998 £112.5
3i Intl BV Gtd Flg Rate Nts 1994 £15.78
TMC P.I.M.B.S. Fifth Fin 2028 £99.33
Do. 2030 £159.22
Do. Class A 2031 £137.53
Do. Class B 2031 £174.06
Tokyo Elect. Power 8¾% Nts 1998 $437.5
TR City of London Tst. 1.23p
Do. 20% (14% net) Pf. 7p
Do. 6% (4.2% net) 1st Pf £2.1
Do. 6% (4.2% net) 2nd Pf 2.1p
TR Far East Inc. Tst 7% Db '97/02 £3.5
TSB Var Rate Sb. Nts. 2003 £167.55
Villiers 11% Cv Un Ln '94/97 5.5p
Wells Fargo Flg Rate Sb Nts 2000 $48.67
Woolwich Bldg. Soc. Sb Flg Rate Nts 2001 £3614.1

■ TOMORROW

Aberdeen (City of) 10.8% Rd 2011 £5.40
Ahmanson (HF) $0.22
American Brands $0.4925
American General $0.275
Asarco $0.10
Assoc. British Foods 8.5p
Barclays Bk. Non-Cm $ Pf Ser.A $0.556
Do. Ser.B $0.5438
Do. Ser.C1 $0.4219
Do. Ser.C2 $0.1406
Do. C Units $0.5625
Do. Ser.D1 $0.4313
Do. Ser.D2 $0.1437
Do. D Units $0.575
British Syphon 2.5p
Brit. Telecom Fin. 8½% Gtd Nts 1994 Ecu85.0
Burndene Invs. 0.5p
Coventry Bldg. Scty. 12⅛% Und Mandatorily Cv Sb Nts £60.625
Dart Group 2p
East Surrey Water 7¼% Rd Db '91/93 £3.625
Do. 10% Rd Db '97/99 £5.00
Elect. & Gen. Inv. 9% Db '89/94 £4.50
Eurocopy 0.5p
Export-Import Bk. of Japan 8⅝% Gtd Bd 1999 $431.25
Fleming Claverhouse Inv. 1.25p
Fleming Mercantile Inv. 3½% Rd Db '90/95 £1.75
Ford Motor $0.40
Govett $0.10
Halifax Bldg. Scty. 12% P.I.B.S. £3000.0
Inco $0.10
Ingersoll-Rand $0.175
Jessups Cv. Rd. Pf. 3.65p
Lon. (County of) 2½% Cons £0.625
Do. 3% Cons. £0.75
Lonrho 2p
Low & Bonar 6% 1st Cm Pf 2.1p
Do. 6% 2nd Cm Pf 2.1p
Do. 5½% 3rd Cm Pf 1.925p
Lucas Inds. 6½% Cm 1st Pf 2.275p
Metropolitan Water Board 3% B 1934/2003 £1.50
Mexico 16½% Ln 2008 £8.25
Morgan Guaranty Tst. of New York 12½% Dep Nts 1993 L637500.0
Natl. Home Loans Sec. Flg Rate Nts 1995 $1.97
Oldham Metropolitan Borough 11.25% Rd 2010 £5.625
P & O 3½% Db. £1.75
Do. 3½% 2nd Db. £1.75
River Plate & Gen. Inv. 5% Cm Pf £1.75
Sainsbury (J) 8% Irrd Un Ln £4.00
Sanyo Elect. 5.1% Nts 1993 Y131750.0
Schneiders (S) 6% Cm Rd Pf 2.1p
Slough Ests. Cm Cv Rd Pf 4.125p
South West Water 15.9p
Transcanada Pipelines 16½% 1st Mtg Bd 2007 8.25p
Treasury 8¾% Ln 1997 £4.375
Treasury 14½% Ln 1994 £7.25
Union Carbide $0.1875
USLIFE $0.30

■ THURSDAY SEPTEMBER 2

Countryside Props. 1.41p
Stakis 0.45p

■ FRIDAY SEPTEMBER 3

Aberforth Smaller Co's Tst 2.1p
Aberforth Split Level Tst Inc 2.4p
Do. Units 2.4p
Boeing $0.25
Clayhithe 1.75p
Debenham Tewson & Chnks 1.8p
EFM Japan Tst. 0.4p
Gillette $0.21
GN Great Nordic DK12.0
Isetan 6.2% Nts 1999 Y620000.0
Ivory & Sime 4.75p
Joseph (Leopold) 13.5p
Lelinvest 10%-11¾% Stpd Int 1st Mtg Db 2012 £5.625
Meyer Intl. 5.8p
Royal Hotel 8.1% Bd 1997 Y610000.0
Sturge Hldgs. 1p
Thames Water 14.1p
Vega Group 1.88p

■ SUNDAY SEPTEMBER 5

Joseph (Leopold) 9¼% Un Ln '97/02 £4.625

CONTRACTS & TENDERS

LLAMADO A LICITACION
LICITACION PUBLICA INTERNACIONAL Nº 042/93
PROCESSO DE COMPRA Nº 0623/93
COMPAÑIA DE SANEAMENTO DEL PARANÁ — SANEPAR

El Gobierno del Estado de Paraná ha recibido del Banco Internacional para Reconstrucción y Fomento — BIRF, un préstamo en diversas monedas equivalente a US$ 117.000.000,00 (Ciento y diecisiete millones de dólares) para financiar parte del costo del "Programa de Saneamento Ambiental da Región Metropolitana de Curitiba — PROSAM" y se prevé que parte de los recursos del préstamo sea asignada a la realización de pagos a efectuares con arreglo al contrato de suministro de equipos para desobstrución de sumideros.

La Compañía de Saneamiento del Paraná — SANEPAR, en lo sucesivo denominada "el comprador" invita a licitantes de países miembros del Banco Mundial — BIRF y Taiwan, China a presentar ofertas selladas para el suministro de equipo para desobstrución de sumidero tipo k-1000, laboratorio móvil dotado de medidor portátil de PH expectrofotometro de campo medidor portátil de DQO bancada y armários acoplados a el vehículo automotor tipo furgón, equipo de auto váccuo por turbina, equipo completo para hidrojacteamiento en el plazo de 45 días de calendario.

Los licitantes calificados que están interesados podrán obtener información adicional e inspeccionar los pliegos de licitación en las oficinas de la Superintendencia de Proveemiento, a la Rua Almirante Gonçalves, 1385 — Curitiba/PR — Brasil — teléfono (041) 222-4998 y 322-2626, ramal 292, telex (41)7402 y fax 554-1232.

Los licitantes calificados que estén interesados podrán adquirir un juego completo de los pliegos de licitación entre los días 30/08/93 y 14/10/93, mediante la presentación del recibo de pago de CR$ 5.000,00 en la oficina antes mencionada desde 08:00 horas, hasta 17:30 horas.

Las ofertas serán recibidas por la Superintendencia de Proveemiento, a la Rua Almirante Gonçalves, 1385 — Curitiba/PR — Brasil — teléfono (041) 222-4998 y 322-2626, ramal 292, telex (41)7402 y fax 554-1232 hasta las 09:00 horas del día 15/10/93 o en la sesión pública de apertura de las ofertas que será realizada a las 09:00 horas del mismo día en la misma dirección arriba.

Pedidos de aclaraciones sobre los documentos de licitación pueden ser sollcitador hasta el día 07/10/93.
CURITIBA, 30/08/93

STÊNIO SALES JACOB
Director Presidente

LEGAL NOTICES

THE ROYAL BANK OF CANADA
U.S. $350,000,000 Floating Rate Debentures due 2005

In accordance with the Terms and Conditions of the Debentures, the interest rate for the period 31st August, 1993 to 30th September, 1993 has been fixed at 3¼% per annum. On 30th September, 1993 interest of U.S. $2.708333 per U.S. $1,000 nominal amount of the Debentures will be due for payment. The rate of interest for the period commencing 30th September, 1993 will be determined on 28th September, 1993.

Agent Bank and
Principal Paying Agent
ROYAL BANK OF CANADA EUROPE LIMITED

MANAGEMENT: THE GROWING BUSINESS

In a Nutshell

Focusing on UK ethnic communities

The bulk of small business research work in the UK has been focused on Asians and West Indians.

However, besides Bangladeshis and Afro-Caribbeans, a new study on ethnic enterprise and the high street bank includes interviews with Greek-Cypriots.

The authors of the report* – James Curran and Robert Blackburn of Kingston University – point out that Greek-Cypriots are the longest established of the UK minorities and have the most diverse pattern of ownership.

Their businesses are the largest, and the most likely to have broken out of the ethnic market.

The report is generally sceptical about the importance of ethnic communities as alternative sources of finance.

It says that the Greek-Cypriots are the most frequent users of bank advice, have expanded their businesses more than the other two minorities, and are likely to perform similarly to white-owned firms.

**Available from Small Business Research Centre, Kingston University, Kingston Hill, Surrey, KT2 7LB. Price £40 inc p&p.*

Shopkeepers fall victim to crime

The risks for small shopkeepers from violent crime in some parts of Britain have been highlighted by researchers at the University of Sheffield.

A total of 92 shopkeepers in one part of London and 70 shopkeepers in part of a large Midlands city were interviewed, among them newsagents, off-licences, grocery stores and small supermarkets.

In the London area a quarter of respondents had been the victim of a robbery or attempted robbery (with a knife or gun/imitation gun) in the past 12 months.

In the Midlands area, the figure was 17 per cent.

Some 24 per cent of London shopkeepers and 34 per cent of Midlands shopkeepers had suffered acts of deliberate vandalism to the shop or its property.

Cautious times for entrepreneurs

Owner-managed businesses appear to be optimistic about their future, but would-be entrepreneurs appear to be more cautious.

That is the impression given in this month's Touche Ross survey of owner-managed businesses and National Westminster Bank's latest quarterly start-up index.

According to Touche Ross, 74 per cent of respondents are anticipating a positive growth in turnover over the next 12 months.

This confidence is backed up by improved sales and order levels in the last quarter at more than half the 197 businesses polled.

Most promisingly 48 per cent are anticipating increasing staff over the next year, compared with 9 per cent expecting to reduce them and the remainder expecting no change.

NatWest's figures, meanwhile, show that the number of small business start-ups in the second quarter of 1993 – around 90,000 – showed a slight dip on the 95,000 estimated for the first quarter.

However, the six-month total of 185,000 was the same as that for the second half of 1992.

"New, small-business owners are thinking very carefully about the commitments they are prepared to take on, especially when other people's livelihoods are at risk as well as their own", according to Jane Bradford, who is head of small business services at NatWest.

"On average they spend nearly eight months planning their business venture before they actually start up".

A helping hand for overseas traders

North Yorkshire Training and Enterprise Council (TEC) has just launched a pilot service to help 20 small and medium-sized businesses increase their exports. The first stage is a half-day's free consultancy to produce an export action plan.

The second part is a heavily subsidised place on a trade mission to selected European countries to make contacts and accompanied visits to selected international trade fairs.

Many companies using personal details of individuals are breaking the law by failing to register their activities with the Data Protection Registrar, reports **Michael Cassell**

Don't fall foul of computer data

It may be the last message that the thousands of small UK businesses struggling to survive want to hear. But there is an excellent chance they are committing a criminal offence each time they switch on their computer terminals.

The reason is they are ignoring, or are not even aware of, their obligations under the Data Protection Act 1984.

The legislation was the first in the UK to address the use or potential misuse of computers. Nine years on, enormous confusion and uncertainty surrounds its workings.

Under the act, which does not cover information held and processed manually, organisations using data about people are required to register details of their activities and to adhere to a code of good practice.

The same applies to computer agencies which might handle the data for them.

Any organisation which fails to register – it costs £75 for three years – or does so and then breaks the code can face fines of up to £5,000 in a magistrates court. Unlimited fines apply in higher courts.

More than 100 companies and individuals have so far been prosecuted.

Under the legislation, private individuals have the right of access to information held about them and can demand compensation for any damage or distress arising from the storage of inaccurate data or from unauthorised disclosure of the information.

The potential for financial penalties arising from non-compliance, is therefore immense.

The enforcement of data protection is made more difficult because who is and who is not covered by the legislation often remains unclear.

Even Eric Howe, the Data Protection Registrar, acknowledges he has found no satisfactory or reliable way of establishing exactly the number of data users who should be on his books.

Howe, who is an independent officer reporting directly to parliament, says he recognises the complexities involved in interpreting the act and in analysing the diversity of situations in which it can apply. He has only 100 staff and limited finances to enforce the legislation throughout the UK.

Small wonder then that the most unsuspecting candidates have fallen foul of the law.

In one recent case, a local newsagent's shop found itself on the receiving end of an official visit, following a formal complaint from a local customer that a computer screen on full display was broadcasting the names and addresses of some of its customers, many of whom were elderly and vulnerable.

Who is and who is not covered by the legislation often remains unclear. Even Eric Howe, the Data Protection Registrar, acknowledges he has found no satisfactory or reliable way of establishing the number of data users who should be on his books

The business was told to register under the act; the computer was immediately moved out of sight.

In another example, a ticket agency was fined £250 with costs after a customer who had purchased cinema tickets then received unsolicited mail from a third party.

The agency had sold on customers' personal information.

A recent report from the National Audit Office, the public spending watchdog, said that as many as 100,000 data users who should be registered under the act have not done so.

The NAO believes that the total may be considerably higher.

A further problem is that organisations are failing to re-register after the initial three years.

The registrar has consequently concentrated resources on this area. In doing so, however, and because of limited resources, other areas have failed to be adequately monitored, resulting in the growing number of qualifying companies which have yet to make a first registration.

Howe believes that one-third of all small companies are unaware of their statutory obligation to register and more than two-thirds of all small businesses are believed to have no idea about the obligations which are imposed upon them as a result of the legislation.

There is clear need for government departments and other public bodies to maintain the confidentiality of personal information on their files. The same arguably goes for the police, local authorities, educational centres and professional organisations. Less obvious perhaps is the requirement for smaller businesses – from travel agents, employment bureaux and ticket agencies – to register.

According to the registrar's office, the general guideline is that "anyone holding information about living individuals on computer is a data user and therefore needs to register.

"The information in question need not be particularly sensitive and it can be as little as a name and address".

Howe says: "The act as it stands makes no particular allowance for small businesses. It requires every organisation to register and comply in exactly the same way, regardless of size or type of business."

In an attempt to improve on the general lack of awareness of registration requirements among small companies, a new information pack and free video designed to explain the act has just been produced.

There are exemptions for some types of data handlers but they are very narrow and subject to strict conditions.

Registration may not be necessary if, for example, the information is used only for calculating wages and pensions or for keeping accounts. Sports or recreational clubs which do not have limited company status are also exempt.

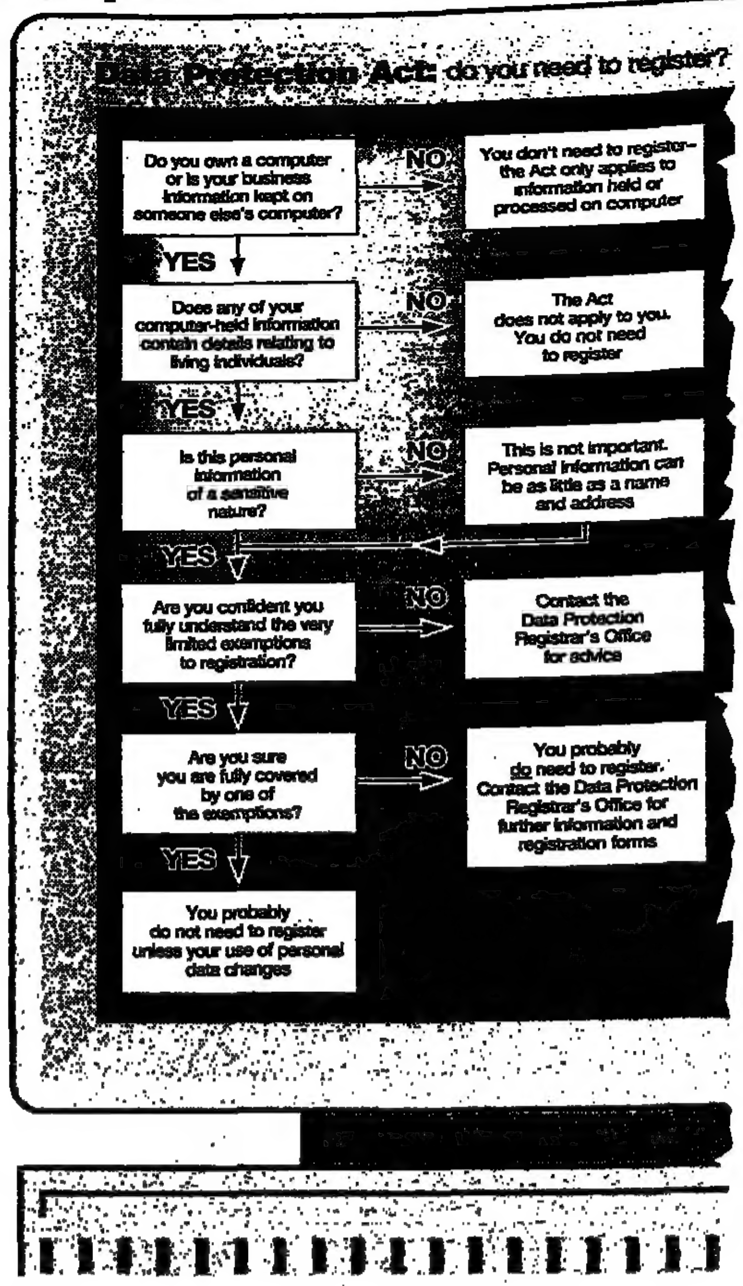
The best advice for small organisations unsure as to whether they qualify or not is to register anyway.

Once businesses are on the registrar's books, the code of good practice demands that they adhere to a list of guiding principles.

The guidance includes obtaining and processing information "fairly and lawfully", keeping it safe and up-to-date and not holding it any longer than is necessary.

An information pack tailored for the small business is available from the registrar's office at Wycliffe House, Water Lane, Wilmslow, SK9 5AF.

Individual advice can also be obtained from Richard Ansell, the small business officer at the same address.



LEGAL NOTICES

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re
TOWERS FINANCIAL CORPORATION,
TOWERS HEALTHCARE RECEIVABLES FUNDING CORPORATION,
TOWERS HEALTHCARE RECEIVABLES FUNDING CORPORATION II,
TOWERS HEALTHCARE RECEIVABLES FUNDING CORPORATION III,
TOWERS HEALTHCARE RECEIVABLES FUNDING CORPORATION IV,
TOWERS HEALTHCARE RECEIVABLES FUNDING CORPORATION V,
TOWERS LEASING CORPORATION,
TOWERS COLLECTION SERVICE, INC.,
TOWERS CREDIT CORPORATION,
TOWERS DIVERSIFIED CORPORATION,
TOWERS ORGANIZATION, INC., and
TFC FUNDING CORPORATION,
Debtors.

Chapter 11
Case No. 93-B-41558 (PBA)

NOTICE OF LAST DATE FOR THE FILING OF PROOFS OF CLAIM AND PROOFS OF INTEREST

TO: CREDITORS AND EQUITY HOLDERS AND TO ANY PERSON, ENTITY OR GOVERNMENTAL UNIT THAT ASSERTS A CLAIM AGAINST OR INTEREST IN THE ABOVE-CAPTIONED DEBTORS.

PLEASE TAKE NOTICE, that the United States Bankruptcy Court for the Southern District of New York has entered an order dated August 11, 1993 (the "Last Date Order"), directing that all claims which arose prior to March 25, 1993 against Towers Healthcare Receivables Funding Corporation, Towers Healthcare Receivables Funding Corporation II, Towers Healthcare Receivables Funding Corporation III, Towers Healthcare Receivables Funding Corporation IV and Towers Healthcare Receivables Funding Corporation V, prior to March 26, 1993 against Towers Financial Corporation, prior to April 29, 1993 against Towers Collection Service, Inc., prior to May 20, 1993 against Towers Leasing Corporation, TFC Funding Corporation, Towers Credit Corporation, Towers Diversified Corporation and Towers Organization, Inc., and any time against any other Towers Financial Corporation related entity (the "Debtors"), and all assertions of equity holdings in any of the Debtors, unless specifically excepted by the Last Date Order, must be filed with the Bankruptcy Court, with all claims submitted on the Court-approved proof of claim forms, together with the additional information described herein, on or before November 15, 1993 (the "Last Date"). Proof of claim forms can be obtained by writing Towers Financial Proof of Claim Form, c/o Poorman-Douglas Corporation, 1325 S.W. Custer Drive, Portland, Oregon 97219.

PLEASE TAKE FURTHER NOTICE, that any claims or assertions of interest required to be filed pursuant to the provisions of the Last Date Order, and not filed on or before the Last Date, shall be FOREVER BARRED FROM ASSERTION AGAINST OR WITH RESPECT TO THE DEBTORS AND PROPERTY OF THEIR ESTATES, AND THE HOLDERS OF THE CLAIMS OR INTERESTS SHALL BE BARRED FROM VOTING ON A PLAN OR PARTICIPATING IN ANY DISTRIBUTION IN THIS CASE, BUT SHALL NEVERTHELESS BE BOUND BY THE TERMS OF A PLAN CONFIRMED BY THIS COURT.

ALL CREDITORS AND ALL EQUITY HOLDERS MUST FILE CLAIMS OR ASSERTIONS OF INTEREST REGARDLESS OF WHETHER THEIR CLAIMS OR INTERESTS APPEAR AS UNDISPUTED, LIQUIDATED OR NON-CONTINGENT ON THE DEBTORS' EXISTING BOOKS AND RECORDS, EXCEPT THAT CREDITORS WHO HAVE ALREADY FILED CLAIMS OR WHO ASSERT CLAIMS FOR ADMINISTRATIVE EXPENSES NEED NOT FILE A PROOF OF CLAIM OR AN ADDITIONAL CLAIM AT THIS TIME.

ALL CREDITORS MUST ATTACH TO THEIR PROOF OF CLAIM FORM: (I) COPIES OF ALL INSTRUMENTS OR DOCUMENTS EVIDENCING THE DEBTORS' INDEBTEDNESS TO SUCH CREDITOR; AND (II) IN THE CASE OF ALL BONDHOLDERS AND NOTEHOLDERS, OR ANY OTHER CREDITOR WHOSE CLAIM IS BASED ON WRITTEN EVIDENCE OF INDEBTEDNESS, FOR CLAIMS EXCEEDING 10,000 DOLLARS, COPIES OF THE FRONT AND BACK SIDES OF EACH CHECK OR OTHER INSTRUMENT OR DOCUMENT BY WHICH SUCH CREDITOR PAID OR PROVIDED CONSIDERATION TO ACQUIRE ITS BOND, NOTE OR OTHER EVIDENCE OF INDEBTEDNESS.

ALL EQUITY HOLDERS MUST ATTACH TO THEIR PROOF OF INTEREST COPIES OF BOTH SIDES OF ALL STOCK CERTIFICATES OR DOCUMENTS EVIDENCING THEIR EQUITY HOLDINGS AND, FOR EQUITY HOLDINGS EXCEEDING ONE PERCENT OF ANY CLASS OF SECURITY, COPIES OF BOTH SIDES OF ALL CHECKS OR OTHER INSTRUMENTS OR DOCUMENTS BY WHICH SUCH EQUITY HOLDER PAID OR PROVIDED CONSIDERATION TO ACQUIRE ITS HOLDINGS.

ALL CREDITORS WHO ARE PARTIES TO UNEXPIRED LEASES OR OTHER EXECUTORY CONTRACTS MUST FILE CONTINGENT PROOFS OF CLAIM WHETHER OR NOT SUCH LEASE OR CONTRACT HAS BEEN REJECTED. THESE CONTINGENT PROOFS OF CLAIM MUST INCLUDE COPIES OF THE LEASE OR EXECUTORY CONTRACT, AND FOR CLAIMS EXCEEDING 10,000 DOLLARS COPIES OF THE FRONT AND BACK SIDE OF EACH CHECK OR OTHER INSTRUMENT RECEIVED BY SUCH CONTINGENT CREDITOR FROM ONE OR MORE OF THE DEBTORS IN PAYMENT OF ITS OBLIGATIONS UNDER SUCH EXECUTORY CONTRACT OR UNEXPIRED LEASE.

EACH CREDITOR OR EQUITY HOLDER MUST SPECIFY ON THE PROOF OF CLAIM OR INTEREST FORM THE DEBTOR WITH RESPECT TO WHOM THE PROOF OF CLAIM OR INTEREST IS FILED.

ALL PROOFS OF CLAIM OR INTEREST PLUS SUPPORTING DOCUMENTATION MUST BE RECEIVED BY 5:00 P.M. E.S.T. ON NOVEMBER 15, 1993, BY MAIL TO:

TOWERS FINANCIAL CLAIMS
BOWLING GREEN STATION
P.O. BOX 3
NEW YORK, N.Y. 10274-0003

OR ON OR BEFORE 5:00 P.M. E.S.T ON NOVEMBER 15, 1993 BY HAND DELIVERY TO THE CLERK OF THE COURT, UNITED STATES BANKRUPTCY COURT, SOUTHERN DISTRICT OF NEW YORK, THE ALEXANDER HAMILTON CUSTOM HOUSE, ONE BOWLING GREEN, NEW YORK, NEW YORK 10004-1408. SUCH PROOFS OF CLAIM OR PROOFS OF INTEREST WILL BE DEEMED FILED ONLY WHEN RECEIVED. CREDITORS WITH SECURED CLAIMS AND CREDITORS WITH PRIORITY CLAIMS MUST FILE PROOFS CLAIM ON OR PRIOR TO THE LAST DATE.

The provisions of the Last Date Order apply to all claims of whatever character against and all interests of whatever character in each Debtor and any other Towers Financial Corporation related entity or their property, whether reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, direct, indirect, legal, equitable, secured or unsecured.

Dated: New York, New York
August 11, 1993

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Glenn E. Siegel, Esq.

BUSINESS OPPORTUNITIES

READERS ARE RECOMMENDED TO SEEK APPROPRIATE PROFESSIONAL ADVICE BEFORE ENTERING INTO COMMITMENTS

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WHIRLPOOL INTERNATIONAL

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Tel: 0382-200064

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Lebion Sales Corporation
c/o Citco St. Thomas, Inc.
5 Kronprindsens Gade
Charlotte Amalie
St. Thomas, U.S.V.I.

Koala FSC, Ltd.,

a Bermuda Corporation, may be available to enter into leasing transactions, as lessor, with respect to U.S. manufactured property to be used outside the U.S. If interested, please contact the company at:

Koala FSC, Ltd.
c/o CODAN Services, Ltd.
Clarendon House
Church Street
Hamilton, Bermuda

PFI International, Inc.

a Guam Corporation, may be available to enter into leasing transactions, as lessor, with respect to U.S. manufactured property to be used outside the U.S. If interested, please contact the company at:

PFI International, Inc.
P.O. Box 8F
Agana, Guam

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For further information, please contact in the first instance Christopher Gray on 0623 651626 or alternatively Angus Martin at the address below.

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The Joint Administrative Receivers, K. S. Chalk and N. G. Atkinson, offer for sale the business and assets of the above company, which operates two microfilm processing bureaux.

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BANK OF ATHENS S.A.

ANNOUNCEMENT OF A REPEAT PUBLIC INVITATION TO BID FOR THE PURCHASE OF THE ASSETS OF THE COMPANY NAMED "ATHENS PIPE WORKS S.A."

The Bank of Athens as a special liquidator for the Company named "ATHENS PIPE WORKS S.A." which has been placed under a special liquidation procedure provided for in Article 46a of Law 1892/90 by virtue of Decision No 3867/92 of the Athens Court of Appeal, as the judgment section of that decision was construed by Decision No 592/93 rendered by the same Court

announces

a Repeat Public invitation to Bid on the basis of sealed binding bids for the sale, as a whole, of the assets of the Company named "ATHENS PIPE WORKS S.A." (hereinafter called "the Company"), as specified in the Bidding Memorandum.

BRIEF DESCRIPTION

The Company was founded in 1960 with a registered office located in Athens (Office Address: 260, Piraeus Street) and up to 1992, when the Company was placed under a state of special liquidation, the scope of its activities/business was as follows:

1. The production of Steel Pipes
- Longitudinally welded steel pipes (1/2" - 10 3/4") for water supply, mechanical structures line pipe casing and tubing (with API monogram), water pumping (ASTM) etc.
- SPIRAL weld seam pipes (6 1/4" - 80") and
- Steel quick coupling pipes (diameter 70 - 150).
2. The production of steel enamelled bathtubs and
3. the production of steel heating radiators.

Its factory, which is located at GLYFA, DROSSIA, CHALKIDA is 432.7 stremmas (1 stremma = 1,000 square metres) in area and its enclosed space consists of five (5) independent large buildings and four (4) smaller ones and is 74,800 square metres in area.

The installed power of the mechanical engineering equipment is 30,000 KW and the total production capacity of the factory is estimated, depending on the pipes specifications, at 100,000 - 150,000 tonnes per annum.

Further, the Company owns a property located in Nea Efkarpia, Thessaloniki (49, Langada Street), the site of which is 17.2 stremmas in area and the enclosed space is suitable for use as a warehouse (5,143 square metres in area).

BIDDING MEMORANDUM

Every party concerned will be entitled to receive a detailed Bidding Memorandum and any other information concerning the Company's assets being under sale upon submission of a confidentiality promise in writing.

TERMS OF ANNOUNCEMENT

1. Preamble: The Public Bidding Procedure will be carried out according to the provisions of Article 46a of Law 1892/90, according to the terms of this announcement and according to the terms which are included in the Bidding Memorandum, no matter whether they are repeated or not in this announcement. The submission of a binding bid shall mean the unreserved acceptance of al these terms.

2. Binding bids: For the participation in the bidding procedure the parties concerned will be summoned to submit a sealed written binding bid until Tuesday, 28th of September 1993, 12.00 hours to Georgia Fiamengou, Notary Public for and in Athens of 31, Char. Trikoupi Street, 4th floor, tel. No 3609476.

The price being offered must be explicitly stated within the bids and such price must be a flat price for the Company's assets being sold and the terms of payment must also be mentioned in detail (for cash or on credit, making reference to the number of instalments, the time of their payment and the interest rate being proposed).

Bids submitted out of time will not be accepted and will not be taken into account. Furthermore, bid clarifications, modifications, additions or improvements will not be accepted or taken under consideration after the unsealing unless there is a written request of the liquidator or the creditors representing more than 51% of the claims against the Company. The commitment pertaining to the bids shall be valid up to the assignment and the execution (signing) of the contract provided for in paragraph 7 of Article 46a of Law 1892/90.

3. Letter of Guarantee: Every bid will be accompanied by a Letter of Guarantee issued by a Bank lawfully operating in Greece of a three (3) - month term at least for which an extension shall be possible up to the assignment, for an amount of three hundred (300) million drachmas. A model of the letter of guarantee is contained in the Bidding Memorandum. Bids without a letter of guarantee shall not be taken into account. In the event of breach of the terms of the bidding procedure by a participant who will be regarded as highest bidder the amount of the letter of guarantee will be forfeited in favour of the liquidator as a penalty and payment of damages to him/it.

4. Way of submission: The bids along with the letters of guarantee will be submitted within a sealed opaque envelope. The submission of the bids will be made in person or by a lawfully authorized person.

5. The unsealing of the bids will be made by the Notary Public in her office on Tuesday, 28th of September 1993 at 13.00 hours. Those who have submitted a timely binding bid will be entitled to be present upon the unsealing of the bids and sign the unsealing report to be drawn up.

6. Highest bidder: The person/party whose bid will be judged by the creditors representing more than 51% of the claims against the Company (hereinafter called "the Creditors") at their absolute discretion, upon proposal submitted by the liquidator, as the most beneficial for the Company's creditors will be regarded as the highest bidder. It is noted that in the event that a deferred payment of the prices is offered, the current value shall be taken into account for the evaluation of the bids, which will be calculated at an interest rate of 22% per annum compounded annually.

7. The liquidator will advise the highest bidder in writing to come obligatorily at a place and time which will be determined in the notice for the execution (signing) of the appropriate contract for the transfer of the assets on the basis of the terms of his/its bids and the other better terms, if any, to be recommended/indicated by the creditors and agreed upon with the highest bidder.

The assignment shall occur upon the execution (signing) of the relevant contract for the transfer.

In the event that the person/party being regarded as the highest bidder breaks his/its promise to come and sign the contract for the transfer of the assets as well as to comply with his/its obligations resulting from this announcement and the terms of the bidding procedure, then the guarantee given shall be forfeited in favour of liquidator Bank of Athens for the purpose of the defrayal of the expenses of any nature and its work as well as for the purpose of covering any actual loss or loss of earnings, without the liquidator having any obligation to give any particular proof in regard to them. Further, liquidator Bank of Athens will have the subsidiary right to consider that the letter of guarantee amount has been forfeited in its favour as a penalty and ask for its collection from the guaranteeing Bank.

8. All the expenses and costs of any nature for the participation in the bidding procedure and the transfer of the assets shall be exclusively borne by the parties concerned/buyers and the highest bidder, as the case may be. It is noted that in regard to this transfer the exemptions and limitations/restrictions referred to in paragraph 13 of Article 46 a of Law 1892/90 shall apply, and the V.A.T., if any, on the items of movable property shall be borne by the buyer.

9. The liquidator and the creditors shall not have any liability or obligation towards the parties participating in the bidding procedure in regard to the evaluation of the bids, the appointment of the highest bidder, the decision concerning the repetition or cancellation of the bidding procedure and generally for any other decision relative to the bidding procedure. Further, the liquidator, the creditors and the Notary Public shall not be responsible in regard to any physical or legal defects of the items of property being sold. The submission of the binding bids shall not grant any right to assignment. Generally, the parties participating in the bidding procedure shall not acquire any right or claim in regard to this announcement and their participation in the bidding procedure against the liquidator or the creditors for any reason whatsoever.

10. This announcement has been drawn up in Greek and in English (translation) in any event, however, the Greek text shall prevail.

11. For the receipt of the Bidding Memorandum and any additional information the parties concerned may address themselves to Mr Dem. Vainalis, the liquidator's representative, in the Company's offices, 260, Piraeus Street, tel. Nos 4820828 - 4811375, fax No 4810171.

Athens 27th August 1993
THE BANK OF ATHENS

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REPUBLIC OF POLAND
MINISTRY OF PRIVATISATION

INVITATION TO NEGOTIATE

The Polish Ministry of Privatisation, acting on behalf of the State Treasury in accordance with Article 23 of the Act on Privatisation of the State Enterprises dated the 13th of June 1990 ("the Privatisation Act"), issues an Invitation to Negotiate to all suitably qualified parties interested in the purchase of shares in **HYDROBUDOWA-6 S.A.** ("the Company"). The Company focuses on long-distance underground construction and installation as well as pipelines for transmission of gas and fluids. The Company is also active in construction of transportation systems as well as industrial and public building.

This invitation is for the purchase of no less than 10% of the share capital and no more than the total share capital less the shares offered to the Company employees pursuant to Article 24 of the Privatisation Act. Up to 20% of shares of the Company shall be offered to the employees of the Company on a preferential basis in accordance with Article 24 of the Privatisation Act.

Interested parties should record their interest in writing by the 15th of September 1993, 5pm. The Ministry of Privatisation reserves the right to extend this deadline, but is under no obligation to consider expressions of interest or requests for an Information Memorandum after the 15th of September 1993.

Upon the receipt of a written expression of interest and subject to the signing of a Confidentiality Agreement, an Information Memorandum will be available to the interested parties and may be obtained from Company Assistance Limited, the representative of the Ministry of Privatisation in this transaction, at the address below. The Information Memorandum will provide the guidelines and timetable for preparing and submitting a proposal for the purchase of shares in the Company.

All expressions of interest or inquiries regarding this invitation should be addressed to:

Company Assistance Ltd.
3rd floor
ul. Podwale 13
00-950 Warszawa
Poland

Attn: Mr Tuomo Hattaka
Mr Zdzislaw Gnat
Tel: (48) (2) 635 54 06
(48) (2) 635 86 50
(48) 39 12 08 55
Fax: (48) (22) 31 79 20

The Ministry of Privatisation reserves the right to reject offers submitted or to modify the privatisation procedure, should this be in the interest of the Ministry or the above Company.

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CONSTRUCTION CONTRACTS

Heathrow Express project

Airport operator BAA is to use the New Engineering Contract (NEC) for the main tunnel for *the £300m Heathrow Express* scheme. This is believed to represent the biggest UK civil engineering project to adopt the new form of contract.

The New Engineering Contract (NEC) is a standard form of contract suitable for use in the design and construction (including erection) of new works involving any, or all, of the building disciplines.

BAA is a leading proponent of the NEC having already used this form of contract on a number of successfully completed projects at Heathrow and Southampton airports.

The contract for a new terminal and car park at Southampton will be the first UK building contract to use the NEC.

Explaining the benefits of the new form of contract, BAA's project director, David H. Williams said "We see the radical and less adversarial approach which is required to administer this contract as *improving the pre-planning* productivity and project performance generally.

The use of the NEC is one of a number of initiatives currently being embraced by BAA as part of a continuous *improvement process for its* £300m a year capital investment programme.

Swindon centre

GARDINER & THEOBALD has *been appointed* by Thamesdown Borough Council to act as quantity surveyor for the pre-contract stages of the £30m refurbishment of the Brunel Centre in Swindon.

The project includes the *refurbishment of the Brunel* Arcade with provision for a new 130,000 sq ft store and a 1,100 space car park.

Birmingham retail plan

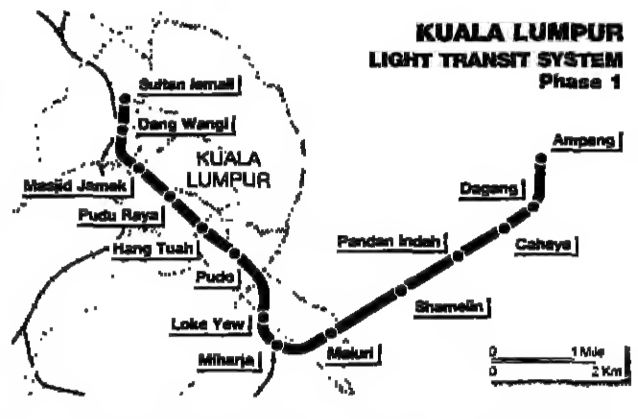
An artist's impression of the proposed "The Water's Edge" development at Brindleyplace

The West Midland's construction industry has received a boost with the appointment by Brindleyplace of Birmingham-based builders, TILBURY DOUGLAS CONSTRUCTION. Tilbury Douglas has been awarded the contract for 'The Water's Edge', the first phase of Birmingham's £250m showpiece development, Brindleyplace. Work on the £3m design and build contract is due to start on September 6 and will include the shell and core construction of 'The Water's Edge', the first phase of retail and catering facilities on the 15 acre site.

The Water's Edge is a 60,000 sq ft canalside development of restaurants, shops, bars and cafes which will be linked to the canalside entrance of the International Convention Centre by a new pedestrian steel suspension bridge which is part of the contract.

A civic square will be created at the heart of Brindleyplace. The initial layout will be set out in time to open to the public next summer.

Malaysian transport scheme



SISTEM TRANSIT ALIRAN RINGAN (STAR), has raised *£300m of funding for work on* Phase One of the project to develop a light rail transit system (LRT) for the Malaysian capital, Kuala Lumpur.

Over 18 months ago, the Anglo-German consortium of *Taylor Woodrow International* and AEG Westinghouse Transport Systeme GmbH formed STAR to raise private investment capital for the first phase of the LRT project. Having secured capital, STAR would *then own and operate the system* under a franchise agreement with the Malaysian government.

STAR now has in place the required funds to begin work on the project. Over 60 per cent *is sourced from commercial* bank loans, around 10 per cent from a government support loan and the balance in the form of equity from Malaysian and foreign investors.

This project represents the first phase of an integrated light rail network for Kuala *Lumpur and surrounding* areas.

Taylor Woodrow International and AEG Westinghouse Transport Systeme GmbH, together form the Kuala Lumpur Transit Group Sdn Bhd (KLTG), which has entered into a £225m contract with *STAR to undertake the design,* construction, delivery, installation and testing of the LRT system.

Developing superstores in Essex

COUNTRYSIDE PROPERTIES has been awarded two con*tracts by Tesco Stores for the* design and construction of two new food superstores in Harlow, Essex.

A superstore in Edinburgh Way will provide 60,500 sq ft of retail accommodation together with parking for 560 cars and a petrol filling station. The new store is programmed to open in February 1994.

The second superstore forms the basis of a community neighbourhood centre at Church Langley near Harlow *and construction started on* August 4. On completion in June 1994, the 49,000 sq ft superstore will be the largest unit in the centre, providing parking for 465 cars as well as a petrol filling station and four other retail units.

Production plan

Bristol currently boasts several important construction contracts which will shortly be starting on site. PEARCE CONSTRUCTION is playing its part with the start of a design and build contract for the new £30m international production centre for DRG Medical Packaging.

The investment by the Bowater company is being project managed by Gleeds Management Services.

Cold storage

CONDER PROJECTS, a mem*ber of the Miller Group, has* been awarded new orders to the value of over £10m.

The main contract award, valued at over £7.7m, involves designing and building a cold store and distribution centre at *Tilbury Docks for Van Bon* Cold Stores (UK), a food importer and distributor based in Holland. Project management is being undertaken by CAER URFA Consultancy.

The building at Tilbury *Docks, covering a floor area of* almost 32,000 sq metres, will include plant rooms, offices and associated facilities. Chill storage will be handled on three levels, with temperature control from 15°C to 0°C, *together with humidity con*trol. The cold stores will have drive-in racking to all five chambers.

PEOPLE

Reeves' rehabilitation complete

Christopher Reeves, who was chief executive of Morgan Grenfell at the time of the Guinness affair, has seemingly been fully rehabilitated by the City now that he has been promoted to chairman of Merrill Lynch Europe/Middle East.

Nearly two years after resigning from Morgan Grenfell in 1987, he had joined the US investment banking group as senior adviser to Jerry Kenney, then president of Merrill Lynch Capital Markets; Reeves later moved on to become vice chairman of Merrill Lynch International.

When he first joined, Merrill denied that the Bank of England had blocked his appointment as chief executive *of the European operations on* account of his connections with the Guinness affair, but at the end of last week a spokesman indicated that "certain restrictions" on his activities previously in place had now been lifted, and that approval for the current appointment had been secured from both the Securities and Futures Authority and the *Bank of England.*

No-one has held the title of chairman of Merrill Lynch Europe since Stani. Yassukovich left two and a half years ago, although Mike Giles, chairman of Merrill Lynch International Bank had taken effective responsibility.

Reeves says *that his new* title means that he will be "much more executive rather than advisery" and will be allowed "to do more things", notably chairing the executive committee in charge of the region, a position that Giles had also previously held.

He adds that Merrill is "so much bigger and more active that it is more necessary to have someone in this role". It has expanded its capital raising activities generally, has applied *to become a market*-maker in gilts and is growing on the Continent, particularly in France and Germany.

Reeves says he himself has developed a special interest in India which, despite his job title, is in fact "on the extremity" of his region, and he sits on the board of the India Fund and the India Growth Fund."

Asked if he was now receiving the million pound salary that reports suggested he had had to turn down in 1988, he commented: "Sadly not".

Finance moves

■ **Glenn Wellman**, formerly an md and chief investment officer at Alliance Capital, has been appointed a director and head of global equity management at CSFB INVESTMENT MANAGEMENT.

■ **Massimo Perazzo**, formerly direttore generale, corporate finance at Pasfin Securities SIM in Milan, has been appointed a director in the corporate finance department of SWISS BANK CORPORATION.

■ ***Jamie Gunn***, *formerly* finance director of Griffin Factors, part of Midland Bank, has been appointed group strategic planning director of NOBLE LOWNDES.

■ **Brian Phillips** (below left), formerly a director of Invesco Ventures, and **Donald Maclennan** (below right), formerly an investment director with 3i, have been appointed directors of GARTMORE VENTURE CAPITAL.

■ **Valerie Lane**, formerly a senior vice-president at Kleinwort Benson, has been appointed md of head of US private placements and structured distribution at BZW in New York.

■ **Greg McNulty** has been appointed a director of Fox-Pitt, Kelton.

■ **David Mee** has been *appointed director* and senior legal adviser at NOMURA INTERNATIONAL; he moves from Allen & Overy.

■ **David Schofield** has been appointed director, head of fixed income sales into *Germany and France*, at UBS: he moves from Lehman Brothers.

Collinson to regenerate Plymouth

The Plymouth Urban Development Corporation in Devon, set up by the government five months ago to regenerate unwanted Ministry of Defence sites including the *Royal William naval yard, will* begin to pick up steam tomorrow with the arrival of a chief executive, John Collinson.

The corporation, the 12th UDC in England, came into being on April 1 with a proj*ected budget of £45m over its* intended five-year lifespan. Collinson, recruited after the advertised post attracted over 200 applications, has been working out his notice as property director of the Black Country Development Corporation, where he has been for five years.

Collinson, who is 43, spent five years before that with Salford city council, but in his new post he will be returning to his home county. He was born in Exeter.

His first priority in Plym*outh will be the UDC's busi*ness plan which is due to go to the Department of Environment within a month of his arrival. The next priority, he says, is "hands on deck" in terms of staff. One necessary appointment, that of finance and administration director, is expected to be made shortly.

Already on deck is Vice-Admiral Sir Robert Gerken as chairman and board members include the leaders of Plymouth city council and Devon county council. The UDC covers 165 acres and it is *envisaged that there will be* mixed development including offices, shops, restaurants and housing.

COMPANY NOTICES

Art at Edinburgh/**Bill Packer**

Exhibitions away from the festival

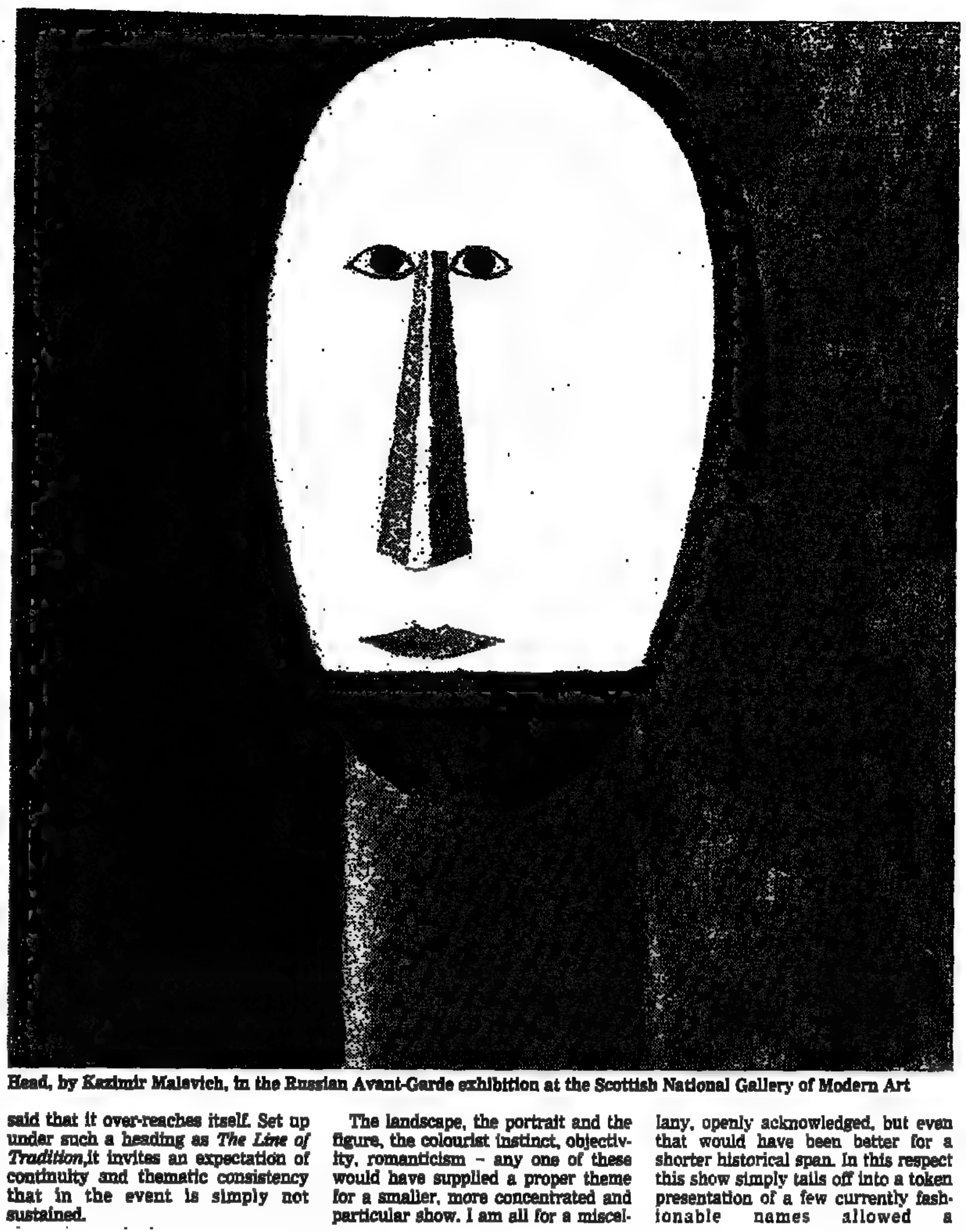
For all that the festival proper would rather have nothing to do with such things, Edinburgh is currently full of worthwhile exhibitions, with the National Galleries of Scotland offering a substantial quiver-full. The Queen's Holbeins at the National Gallery apart, the most important is the show of early-modern Russian painting put together by the Musée des Beaux Arts de Nantes, which has come to the Museum of Modern Art for its sole British showing.

Its subject is the heroic period of Russian modernism from the turn of the century to the first years of the Communist state. The subject has been thoroughly investigated since the spirit of *glasnost* threw open Russian collections locked away these 60 years. Even so, drawn as it is for the most part from regional museums from Samara to Novgorod, this remarkable show brings us many works for the first time, fresh and fascinating.

Not that it breaks new ground exactly: the expected names are here and no new reputations are made, no accepted critical analysis overturned. It is but an open celebration of the work as it is, in all its variety, and a poignant memorial to an historic moment and opportunity lost. For here was a national school of such vigour and originality that, had it remained within the mainstream of modernist development, might have profoundly moderated its course. Would the assumed authority of the Paris school have remained so persuasive for so long? Would the habit, now ingrained, of assuming there to be at any moment a single significant centre of activity, have taken such a hold? The questions hang in the air.

As it was the Russians had influence enough, on the course of abstraction and constructivism especially, through such as Kandinsky and Malevich, and such work as remained in the west. The greater loss was to expressionism, which in its Russian manifestation – alive to developments elsewhere, in Germany especially, in the years before 1914 – brought to it a zest and geniality, wonderfully angst-free, derived from its alternative sources in the profound folk tradition.

Goncharova, Popova, Rozanova, Stepanova – how important the women are – Falk, Filanov, Kravchenko, Larianov, Shevchenko, and Chagall, Malevich, Kandinsky and so many more besides: Cubist still-lifes, suprematist abstraction, streets in the snow, country villages, men talking, women working – it is a lovely show.



Head, by Kazimir Malevich, in the Russian Avant-Garde exhibition at the Scottish National Gallery of Modern Art

The National Galleries have also taken over the Royal Scottish Academy, filling its ample spaces with an ambitious historical survey of drawings, water-colours and prints by Scottish artists from 1700 to 1990. It is a dense and constantly intriguing show that holds many beautiful and remarkable things, yet it has to be said that it over-reaches itself. Set up under such a heading as *The Line of Tradition*, it invites an expectation of continuity and thematic consistency that in the event is simply not sustained.

The landscape, the portrait and the figure, the colourist instinct, objectivity, romanticism – any one of these would have supplied a proper theme for a smaller, more concentrated and particular show. I am all for a miscellany, openly acknowledged, but even that would have been better for a shorter historical span. In this respect this show simply tails off into a token presentation of a few currently fashionable names allowed a disproportionate amount of space.

None of this should put off the visitor prepared to immerse himself in the material and indulge his own interests and enjoyments. Scottish painting and graphic art from the 1880s well into the 1960s was especially strong and too readily disregarded by the world at large. There are many fine examples here – James Cowie's studies of his students, William Gillies' landscapes, James MacBey's first world war etchings, Walton's Black Bull beneath its tree. The large and so deceptively free water-colours of Arthur Melville alone are worth the visit.

Much the same ground is covered by the Scottish Gallery in its truly miscellaneous survey of work by artists associated, as teachers or students, with the Edinburgh College of Art, since its foundation in 1909. In recent years especially the college has been a bastion of the painterly and graphic disciplines too lightly abandoned in the name of creative liberality south of the border some 30 years ago. With such mentors to hand as Gillies, Anne Redpath, Robin Philipson, John Houston, David Michie and Elizabeth Blackadder, it has remained a policy of creative conservatism beyond price.

Back at the Academy, the RSA itself has given over its basement gallery to the Imperial War Museum, to put up a small display of works commissioned lately from contemporary artists. The point it makes is important but could all too easily go by default. War remains a legitimate subject for the artist, whether we are engaged in any formal war or not. Without engaging in the artist's own particular polemic or moral debate, the museum is surely right to monitor the currency of such response on our behalf.

Finally I have room only to recommend Phoebe Anna Traquair – Scottish decorative artist within the arts & crafts movement and Celtic revival at the turn of the century – at the Scottish National Portrait Gallery until November 7, (sponsored by Baillie Gifford & Co., General Accident, and Mobil).

Russian Painting of the Avant-garde 1906-1924: Scottish National Gallery of Modern Art, Belford Rd, until September 5, sponsored by Scottish Power and the Foundation for Sport and the Arts.

The Line of Tradition: Royal Scottish Academy, The Mound, until September 12, sponsored by Dawson International, BSIS, Lothian & Edinburgh Enterprise, and the Esmee Fairburn and Hope Scott Trusts.

The Edinburgh School: The Scottish Gallery, 16 Dundas Street, until September 8.

No More Heroes Anymore: Royal Scottish Academy, until September 12.

Vale of Glamorgan festival

The Proms and Edinburgh may overshadow August, but there are some idyllic outlying festivals. You could do worse than sample the charms of Presteigne, a small town astride the picturesque mid-Wales border, where a modest, friendly bank holiday chamber music event has taken off during the last few years. But for the charged atmosphere of live contemporary music-making, make for coastal St Donat's.

This summer's Vale of Glamorgan festival is a minimalist's paradise. David Williams, the festival chairman, who, with another hat on, helped sway a healthy £25,000 grant from the Welsh Arts Council, explains: "We felt we should do something constructive, not just for new music in broader terms, but for living composers. It seemed more positive to concentrate resources rather than dissipate them, and promote a worthwhile series focusing on the diversity of contemporary works in particular, post-modernist music since the '70s."

The principal sponsors, Allied Steel and Wire (ASW), have proved an added lifeline, injecting several thousands and, no less important, setting up gatherings to help widen the sponsorship net.

At Cardiff's unspoiled Victorian Coal Exchange on Bute Square (the city's former commercial heart), John Metcalf's decidedly adventurous programme was launched last week with a mesmerising, sold-out evening by the American composer Steve Reich, fresh from his South Bank triumph with *The Cave*. Llandaff Cathedral offers an ampler venue tonight for a full-scale John Adams concert, climaxing with his celebrated Whitman Civil War setting *The Wound Dresser* – like his operas *Nixon in China* and *The Death of Klinghoffer*, something of a cult piece.

Getting to the outside-Cardiff events is easiest – be warned – by car. But it's well worth the effort. These attractive smaller venues bring their own rewards, be it the atmospheric oak-rafted fourteenth century Bradenstoke Hall, part of St Donat's Castle within the Atlantic College campus, or the medieval wall-painted St Illtud's Church in Llanylltud Faur (Llantwit Major), an early Celtic Christian site with the added merits of an adjacent pub-studded square and a good surfing beach a mere two miles' distance.

Minimalist the diet may have been – but by no means monochrome. The Smith Quartet, one of Britain's answers to the Kronos, made appearances at both venues, the hall marginally the better for sound and paradoxically more intimate, thanks largely to the players being raised on a dais.

Like the 'modernism' it purports to replace, post-modern and minimalist fare is a mixed bag. The Smiths' reading of the now legendary *Different Trains* was somewhat differently balanced from Reich's own – not quite as haunted, perhaps, but clear and forceful. The South African-born, Princeton-associated Kevin Volans' Second Quartet, *Hunting/Gathering*, seemed to be questing for a style as much as anything. Its repeating motifs and unfinished paragraphs have all the intensity of a short-running sitcom. Bones stick out balefully, rather as Steve Martland's *Patrol* is all sinew – laborious invention, oddly conventional and quintessentially dull.

But nothing can take away from the dedication of these players. Volans' Third Quartet, *Songlines*, like his Rimbaud (and Bruce Chatwin) inspired Almeida chamber opera *The Man who strides the wind (L'Homme aux Semelles de Vent)*, was a revelation: riddled with imaginative ideas, well teased out, an array of string sounds that 'delight the ear and hurt not', that constantly challenge, dazzle and amaze. And Graham Fitkin's quartet *Servant*, like the Michael Nyman encore the following night, gave clear evidence of how minimalism can successfully subsume native and wider traditions.

You can still catch John Adams tonight at 7.30. Next summer's festival includes Australian Peter Sculthorpe and – yes – Gorecki. So book early (Tel. 0446 794848 792151).

Roderick Dunnett

Canadian Opera Company

One of the splash-making themes of this year's Edinburgh festival is the representation of four internationally "hot" theatre-directors: Peter Sellars, Bob Wilson, Robert Lepage, and – the focus of this final week – Peter Stein. This is the sort of high-wire planning and achievement that (in this country at least) now go on nowhere else. And certainly, the Canadian Opera Company double bill of Lepage-produced one-act operas by Bartók and Schoenberg – shown at the Edinburgh Playhouse at the weekend (for two performances only!) – proved the very stuff of festival art: fresh, daring, full of striking ideas executed on a level well beyond the quotidian mundane.

It was an occasion full of firsts: the first British sojourn of Canada's leading opera company, Lepage's first encounters with opera, the first performances at the restored Playhouse after the eve-of-festival backstage fire. The French-Canadian Lepage, whose in-the-mud *Midsummer Night's Dream* was recently staged at the Royal National Theatre, is a theatre magician, conjuror of a floating succession of picturesque images, sometimes haunting and sometimes startling, through which narrative is advanced.

Bartók's duo-drama *Bluebeard's Castle* and Schoenberg's monodrama *Erwartung* – two crypto-autobiographical masterpieces from the first decade of our century in which the deepest human passions are analysed in music and through psycho-symbolic stagecraft – would seem to offer him rich opportunities for just such conjuring.

Both operas, designed (by Michael Levine, brilliantly) to operate different features of the same setting, here colonise different corners of the same dream-world. In both the stage, fronted by a gauze scrim, is lined along the right by the same large block-built wall, a surface pregnant with possibilities – in Bartók, for reflecting the light-images thrown by the seven-fold door-opening on the opposite stage side; in Schoenberg, for suddenly releasing surreal visions through unexpected apertures and for supporting marvellous slow-motion body-tricks with gravity.

Fluid patterns of imagery are set in motion by cinematic changes of lighting (or should have been: at the Playhouse neither Robert Thomson 's lighting-plot nor the general level of stage management was expertly seamless as one guesses they were meant to be). The unfolding of both operas, indeed, borrows from film method and manner: in grossly oversimplified terms, Eisenstein-cum-Disney.

In principle the style would appear ideally devised to unlock the tortured poetic secrets of both pieces. In practice I found it unexpectedly erratic partly because banal moments (advert-style autumn leaves and over-used plays with water-reflection) mingle with the magical, partly because a certain intellectual shallowness can be detected in Lepage's larger response to both operas.

The Bartók couple, though handsomely personated by Victor Braun and Jane Gilbert, are prone to obvious, melodramatic gesturing. More simple-minded still, in the Schoenberg, is the framing of the whole piece as an asylum patient's pathological fantasy – a straitjacket, a hospital bed, a psychiatrist with notebook are some of the ways in which Lepage, by "explaining" the opera's content, robs its symbolic substance of multi-layered suggestiveness. Blood-links between the worlds of Schoenberg and Freud may be numerous and easily instanced, but that is no excuse for a cartoon-ish reductiveness in treatment of *Erwartung*.

If the reason was a determination to make more accessible a supposedly "difficult" opera by a famously tough-nut composer, why then the singing of both Schoenberg and Bartók in the original languages, with surtitles high up and far away on the Playhouse proscenium arch? The total effect – of production style linked to the distancing impact of language-choice and of gauze limiting the performers' expressiveness of acting detail – was, I would say, the opposite: concealment as much as revelation.

Happily, however, the excellence of the purely musical realisation worked its own countervailing action. The Canadian Opera Company orchestra, plainly of very high quality, showed itself in complete command of the Bartók's floods of colour no less than Schoenberg's nerve-end refinements of musical imagery; under Richard Bradshaw (COC chief conductor) both scores were revealed in depth.

Victor Braun, though lacking lowest-register solidity, is a superbly dark, noble Bluebeard, Jane Gilbert a vocally lustrous, wide-ranging mezzo Judith. The *Erwartung* protagonist, Rebecca Blankenship, used an uneven dramatic soprano with admirable warmth, commitment and emotional urgency. In spite of my cavils, it all added up to a genuine festival-event.

Max Loppert

Sponsored by AT&T

Edinburgh circus

Look on this circus and on this. Here we see smiling fresh-faced young performers, dressed in fairy tale costumes juggling cheerfully as they spin across the ice. There we see a grotesquely tattooed man known as The Enigma, crunching live locusts and chewing worms.

Circus has always been generous in its range, presenting the height of human endeavour in the ring while embracing freaks in its side shows. Today political correctness has forced circuses to specialise and the great Russian Circus on Ice offers escapist delight for children, while Jim Rose's American Circus Sideshow provides acts that usually surface in a Hammer move.

Both have their attractions. A man on a monocycle (yawn, yawn); a man on a monocycle skipping (yawn); but a man on a monocycle skipping on ice – now that's entertainment. The performance is sugary in the extreme, but its expertise and physical precision hold the interest, and you expect some camp in a tent.

I only closed my eyes once in Jim Rose's tent, erected on Carlton Hill with its stunning views over Edinburgh. That was when the Torture King put needles through his eyes. But it is all done against a backdrop of Rose's genially hysterical commentary which by the end had convinced me with its mock Gothic that at least some of the bodily defying deeds were tricks. This "circus of the scars" was in its way as camp as its rival in The Meadows.

Antony Thorncroft

INTERNATIONAL

ARTS GUIDE

■ AMSTERDAM

Muziektheater Thurs: Netherlands Opera opens 1993-4 season with revival of Klaus-Michael Grüber's production of Parsifal conducted by Hartmut Haenchen, with a cast including Jan Hendrik Rootering, Wolfgang Schöne, Barry McCauley, Günter von Kannen and Ruthild Engert (repeated Sep 6, 9, 12, 15, 18, 22, 25, 29). Sat evening, Sun afternoon (plus five further performances next week): Dutch National Ballet presents Peter Wright's production of Giselle (020-625 5455)

Concertgebouw Thurs: Arturo Tamayo conducts Rotterdam Philharmonic Orchestra in works by Messiaen, Stravinsky and Boulez. Sat afternoon: Edo de Waart conducts Radio Philharmonic Orchestra and Chorus in Mahler's Second Symphony. Next Mon: Gidon Kremer and friends chamber music evening. Sep 13: Simon Rattle conducts CBSO. Sep 18: Cecilia Bartoli (24-hour information service 020-675 4411, ticket reservations 020-671 8345)

Beurs van Berlage Sat: Mikhail Rudy plays Rakhmaninov's First Piano Concerto with Amsterdam Promenade Orchestra, in a programme including works by Gade and Zemlinsky (020-627 0466)

■ ANTWERP

Tomorrow at deSingel: Don Byron Sextet plays Latin jazz. Fri in Carolus Borromeus Church: Philippe Herreweghe conducts Collegium Vocale in Monteverdi's Vespers. Sat: Gabrieli Consort and Players play Monteverdi. Sun afternoon at deSingel: Stefan Soltesz conducts Flanders Opera Orchestra and Chorus in Mahler's Second Symphony. Sun and Mon in St Augustinus Church: Monteverdi madrigals with Concerto Italiano and Cantus Cölln (Antwerp 93: information from Grote Markt 29, B-2000 Antwerp, tel 03-226 9300; tickets from Tele Ticket Service tel 070-233233 or in person at Fnac, Groenplaats, Antwerp)

■ BRUSSELS

Monnaie Thurs, Fri, Sat: Achterland, ballet by Belgian experimental choreographer Anne Teresa de Keersmaeker. Sep 11: opera season opens with first of a series of concert performances of Fidelio (02-219 6341)

Palais des Beaux Arts Sat: Stefan Soltesz conducts Flanders Opera Orchestra and Chorus in Mahler's Second Symphony. Sun: Antonio Pappano conducts Orchestra of the Monnaie in works by Beethoven and Richard Strauss, with violin soloist Thomas Zehetmair (repeated in Antwerp next Tues). Next Mon: Philippe Herreweghe conducts Collegium Vocale in Monteverdi's Vespers. Next Tues: Gidon Kremer and friends. Sep 11: Simon Rattle conducts CBSO. Sep 13: Maurizio Pollini (02-507 8200)

■ CHICAGO

RAVINIA FESTIVAL
Tonight's drumming concert is by Vinx. Tomorrow, Thurs, Fri, Sat: Hubbard Street Dance Company presents two programmes, including choreographies by Twyla Tharp and Daniel Ezralow. Sun: Bramwell Tovey conducts Ravinia Festival Orchestra and Chicago Symphony Chorus in Gilbert and Sullivan. Next Mon: Tchaikovsky night. End of season (312-728 4642)

CHICAGO SYMPHONY
The new season at Orchestra Hall opens on Sep 17 with the first of four performances of Verdi's Requiem conducted by Daniel Barenboim, who also directs three other programmes in late September and early October (312-435 6666)

CHICAGO LYRIC OPERA
The 1993-4 season at Civic Opera House opens on Sep 18 with La traviata staged by Frank Galati and conducted by Bruno Bartoletti, with a cast led by June Anderson, Giuseppe Sabbatini and Dmitri Hvorostovsky. Massenet's Don Quichotte is revived on Sep 26 with Samuel Ramey in the title role, and Carlisle Floyd's Susannah receives its first Chicago staging on Oct 9 (312-332 2244)

■ GHENT

After five years of renovation, Ghent's opera house reopens on Thurs with a gala concert conducted by Stefan Soltesz, featuring the Flanders Opera Orchestra and Chorus, the City of Birmingham Symphony Chorus and soloists Hilde de Groote and Anne Gjevang. The programme is devoted to Mahler's Second Symphony (repeated in Brussels on Sat evening and Antwerp on Sun afternoon). Staged opera productions in Ghent resume on Sep 23 with the first of four performances of Verdi's Otello (091-225 2425)

■ LINZ

This year's Bruckner Festival runs from Sep 11 to Oct 3. The opening performance of the Eighth Symphony will be given by the Bavarian Radio Symphony Orchestra conducted by Lorin Maazel. Other visitors include the Hilliard Ensemble with choral music by Bruckner, Pärt, Purcell and Cage; I Solisti Veneti with works by Respighi and Wolf-Ferrari; and Russian pianist Lazar Berman. Horst Stein conducts the Bamberg Symphony Orchestra in Bruckner's First Symphony, Philippe Herreweghe conducts La Chapelle Royale in Bruckner's Mass in E minor with wind accompaniment, and the final two concerts are given by the London Philharmonic under Franz Welser-Möst (Brucknerhaus-Kasse, Untere Donaulände 7, Postfach 57, A-4010 Linz, tel 0732-775230)

■ VIENNA

OPERA
The new season at the Staatsoper begins tomorrow with Aida, starring Aprile Millo (repeated on Sat and next Thurs). The opening week also includes Madama Butterfly with Catherine Malfitano and Die Zauberflöte. A cycle of Wagner's Ring conducted by Donald Runnicles begins on Sat, with a cast including Robert Hale, Hildegard Behrens, Waltraud Meier, Poul Elming and Wolfgang Schmidt (0222-51444 2955). The Schlosstheater at Schönbrunn has two Mozart productions, Le nozze di Figaro and a double bill, daily except Mon and Tues till Sep 18 (0222-877 3136)

CONCERTS
Yuri Temirkanov conducts the St Petersburg Philharmonic Orchestra in works by Brahms and Tchaikovsky tonight at Konzerthaus. Daniel Barenboim conducts the Vienna Philharmonic in works by Strauss and Tchaikovsky on Sun morning at the Musikverein (0222-4000 8410). The VPO's first subscription concerts of the new season are conducted by Riccardo Muti on Sep 18 and 19. Alfred Brendel gives a Beethoven recital on Sep 21 (0222-505 8190)

■ WASHINGTON

- Cellophane Xerox: Frederick Gaines' play explores the legacy of Kent State, Ohio, in 1970, when the National Guard was ordered to shoot at students protesting against the Vietnam war. Opens tomorrow, till Sep 19 (George Mason University Center for the Arts 703-993 8888)
- The Kentucky Cycle: Robert Schenkkan's tale of three families who settle, feud and die for the hills and hollows of eastern Kentucky. The play, divided into two parts played on separate evenings, spans 200 years of American history, with a cast of 20 portraying 72 roles. Daily except Mon till Oct 23 (Kennedy Center Eisenhower Theater 202-467 4600)
- Jesus Christ Superstar: Andrew Lloyd Webber's musical, daily till Sun (Wolf Trap, 1624 Trap Road, Vienna, Virginia, 703-218 6500)
- Phantom of the Opera: Andrew Lloyd Webber's musical, directed by Harold Prince. Till Oct 2 (Kennedy Center Opera House 202-467 4600)

■ ZURICH

OPERA
The 1993-4 season at the Opernhaus opens tomorrow with a revival of Tony Palmer's production of La forza del destino conducted by Eliahu Inbal, with a cast led by Mara Zampieri and Giorgio Zancanaro. The opening week also includes Bob Wilson's production of Lohengrin and Il barbiere di Siviglia. The first new production is Henze's Der Prinz von Homburg, opening on Sep 12 with Thomas Hampson in the title role (01-262 0909)

CONCERTS
Yuri Ahronovich conducts the Tonhalle Orchestra in works by Tchaikovsky and Prokofiev on Fri at the Tonhalle, with piano soloist Vladimir Krainiev. Gerd Albrecht conducts the Czech Philharmonic next Mon in works by Dvorak and Mendelssohn. Alfred Brendel gives a Beethoven recital on Sep 19 (01-261 1600)

ARTS GUIDE
Monday: Berlin, New York and Paris.
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Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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Sky News: West of Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

Quest for a strategy

George Graham on the debates in Nato over its future shape

As President Bill Clinton returns to Washington this week after his seaside holiday, domestic and economic problems, such as the ambitious reform of the healthcare system or the passage of the North American Free Trade Agreement, loom largest on his agenda for the autumn.

But the clocks are running on a more international task, the transformation of the Atlantic alliance to meet a new set of needs and perils after the end of the Cold War.

One clock is of Mr Clinton's own setting: the summit of the North Atlantic Treaty Organisation scheduled for January 10, called at the US's request, demands an effort to spell out a new future for the alliance.

Ticking more insistently, however, is the festering disaster that confronts Nato and the world community in Bosnia.

If Bosnia is the model for the kind of regional and ethnic conflict that will replace the monolithic threat of the Warsaw Pact in Nato's strategic planning, it has posed uncomfortable questions that have received few good answers.

"It is a terrible model but it is the first one," commented Mr Helmut Sonnenfeldt, a scholar at the Brookings Institution in Washington and formerly a senior foreign policy official in the Nixon and Ford administrations.

Mr Sonnenfeldt is one of many observers who join General John Shalikashvili, the Supreme Allied Commander in Europe who has just been appointed to the chairmanship of the US Joint Chiefs of Staff, in arguing that Nato has, at least on the technical and military level, done well in the face of the Bosnian crisis.

"On a military level the institution has performed very effectively. What has not happened are the political decisions that trigger action," Mr Sonnenfeldt said, pointing to the plans drawn up, but never implemented, for the policing of the Vance-Owen peace plan as well as for air strikes against the Serbs.

Colonel Don Snider, director of political-military affairs at the Center for Strategic and International Studies, a Washington research centre, sees a need for further changes to Nato's command structure and conventional forces, but agrees that the greatest challenge is in the political area.

"The political transformation of the alliance is not complete," he said.

In the search for a broader political vision of the future of Nato, clear leadership has yet to emerge from the governments of member countries, and especially from the US: for the moment, at least, the debate is taking place mostly among academics.

One contribution to the debate, by Messrs Ronald Asmus, Richard Kugler and Stephen Larrabee of the Rand Corporation, a California-based think tank, is published today in the journal Foreign Affairs.

The authors have worked closely with Senator Richard Lugar, the Indiana Republican who is one of the few members of Congress to have grappled with the issue, and who has trademarked the catchy phrase "out of area or out of business" to summarise Nato's dilemma.

Clear leadership of Nato has yet to emerge from member governments, especially the US

They argue that Nato desperately needs to address the conflicts along its southern and eastern flanks if it is not to become irrelevant, and spell out six political steps they see as necessary "to forge a new transatlantic bargain".

The first is "to transform Nato from an alliance based on collective defence against a specific threat into an alliance committed to projecting democracy, stability and crisis management in a broader strategic sense".

Nato also needs a more harmonious balance between the US and Europe and a strong Germany fully participating in the alliance.

Asmus, Kugler and Larrabee also urge a constructive security relationship with both Russia and the Ukraine, and a co-ordinated strategy for the integration of Poland, Hungary, the Czech Republic and possibly Slovakia as members of the alliance.

The call for Nato to extend its membership to the east is now widely echoed in US academic circles, though hotly contested in the same issue of Foreign Affairs by Mr Owen Harries, formerly a senior Australian diplomat.

Poland last week renewed its urgings to Nato to make a formal statement that it viewed the country as a future member after President Boris Yeltsin of Russia declared Polish membership would not be contrary to Russia's interests.

But although the proposal is gaining ground in the US Congress, where Senator Lugar has warmly endorsed it, and also among some German politicians, in the US administration ideas about "outreach" to eastern Europe stop well short of early Nato membership.

Most European governments, meanwhile, are too preoccupied with ensuring the US does not leave the alliance to be much interested in new members.

Academics and think-tank analysts in Washington complain bitterly that the Clinton administration is still a very long way from formulating anything like a comprehensive approach to Nato's future – although many are hopeful that General Shalikashvili has thought hard about the problem and may inject a new sense of urgency.

"Right now I don't think anybody in the administration can tell you what they are going to do at the Nato summit," says Colonel Snider.

So far, haphazard defence budget cuts in the US and Europe have done more to reforge Nato than any clear strategic conception.

Because it was he who called for the meeting – and because his claim to leadership on the world stage remains sparse – Mr Clinton stands in particular need of turning next January's summit into a success.

But if Nato continues to play the grand old Duke of York in Bosnia, marching its troops to the top of the hill and then marching them back down again, it seems likely to be seen to have failed its first big post-Cold War test – whatever the effectiveness of its military planning.

If the Bosnian crisis continues to fester, Nato's perceived failure there could cloud the summit, and the alliance's future.

Dilution measures for acid rain

The UK's awkward diplomacy may be tarnishing a hard-won record, writes Bronwen Maddox

The question of whose pollution is producing acid rain, causing European forests to wither and fish to die, is one of the longest-running international environmental disputes. Officials from 36 countries meeting in Geneva this week will try to find an answer.

The issue is particularly sensitive for Britain, which has been accused of jeopardising a United Nations-backed treaty to curb the pollution. Britain's refusal in 1985 to sign an earlier agreement curbing sulphur emissions, one of the leading causes of acid rain, earned it the tag of "dirty man of Europe". The UK has found it hard to shrug off the label, despite introducing expensive measures to clean up power stations, the main polluters.

Now Britain's resistance to the latest, more stringent targets proposed by the United Nations Economic Commission for Europe in Geneva, which includes western and eastern Europe as well as the US and Canada, is drawing new venom from its neighbours. Earlier this month, , Mr Thorbjoern Berntsen, Norway's environment minister, hurled personal abuse at Mr John Gummer, his UK counterpart.

The British reluctance is prompted by the desire to protect the already shrunken demand for British coal from power generators. Tighter emission standards might force them to burn less British coal. But some government officials privately fear that the UK is sacrificing its hard-won environmental record for nothing.

The programme to close mines and to generate a greater proportion of electricity from gas means that the UK may meet the proposed targets, in the same way that it has now met the terms of the 1985 protocol it once resisted. "The negotiating position on acid rain is not taking account of the actual run-down of the coal industry," according to one observer of the talks.

International disputes over acid rain first emerged at the end of the 1970s when the Scandinavians sought explanations for why some of their forests were turning brown. Acid rain is caused mainly by sulphur dioxide, which is emitted when coal and oil are burnt, and by nitrogen oxides, emitted by power stations and transport. The acidity is generally slight, "about the same as a can of Coca-Cola", says Professor Ian Fells of Nottingham University. But the gases, sometimes dissolved in rain, can travel thousands of miles – across national borders – before being deposited, making disputes particularly hard to resolve.

Panos

Pollution plight: acid rain is causing Europe's forests to wither and its fish to die

Scientists generally agree about the harmful effect of the acid on water quality and fish, and its role in corroding buildings. However, "there is more doubt about the mechanism of damage to trees – it can be hard to distinguish the effects [of acid rain] from those of drought", says Prof Fells.

The source of acid rain is clear, however. In Britain, coal-burning power stations are the main culprits, spewing out 72 per cent of total sulphur emissions in 1990. They also discharged 28 per cent of nitrogen oxides in the same year, though this is less than the amount discharged by traffic.

Nevertheless, Britain's emissions have been falling because the decline of heavy manufacturing has reduced industrial energy demand, and there has been a switch by domestic users from coal and oil to gas. Sulphur dioxide emissions dropped from 6.4m tonnes in 1970 to 4.9m tonnes in 1980 and 3.5m tonnes last year.

Emissions are now set to fall further, partly because of the need to fall into line with the European Commission's large combustion plant directive, a treaty covering power stations. National Power, one of the two main generators in the UK, emitted 1.3m tonnes of sulphur dioxide last year; it must halve that level by 2003. PowerGen, the second-biggest generator, last year produced slightly less than 1m tonnes of sulphur dioxide and must cut levels to 669,000 tonnes by 1998.

These targets will be reached by two routes. The first – fitting old, coal-fired power stations with equipment to remove sulphur and other pollution – is expensive. Between them, the generators expect to spend more than £3bn on such improvements during the 1990s. But power companies find it cheaper to switch to cleaner fuels such as natural gas or imported coal, which has roughly half the sulphur content.

The result of these changes, environment ministers say, is that the UK will not only meet the EC directive on large plants, but also the terms of the 1985 United Nations treaty it refused to sign. That prediction holds firm, ministers say, despite the government's decision this month to license the use of orimulsion, dubbed the "world's dirtiest fuel".

Despite such optimism, Britain is arguing in Geneva that it would have difficulty meeting the proposed terms. The UK's neighbours are pressing for it to make a 79 per cent cut in sulphur emissions on 1980 levels possibly by 2000. Britain is countering with a bid of a 70 per cent cut by 2005.

Other countries derive the 79 per cent figure from the model developed by the Austria-based International Institute for Applied Systems Analysis, the most-quoted of the three scientific models used by the UN. According to Ms Fiona Weir, of Friends of the Earth, the environmental pressure group, Britain's reluctance to accept the 79 per cent target implies that it is abandoning "the principle of basing standards on good science".

Government officials reject this claim, saying that Britain's resistance stems from disagreement with the model. They argue that another UN model, run by Imperial College in London, recommends a lower target for UK emissions.

But officials also concede that the principal force behind the British position in Geneva is the Department of Trade and Industry's desire to protect British Coal, after the political storm aroused by this year's pit closures. The DTI fears that power generators would turn to imported coal or shut down ageing coal-fired power stations prematurely rather than fit expensive pollution-control equipment.

Some independent forecasters endorse this view. Mr Jim Skea, energy specialist with the Sussex University-based Science Policy Research Unit, says: "If the government signed up to a 79 per cent reduction by 2005, that would probably be the nail in the coffin for what is left of the British coal industry."

The DTI argues, though, that its caution is warranted. Its officials believe the decision not to sign the 1985 protocol was right at the time – a fall in emissions during the 1980s was not anticipated.

But some officials in the UK environment department point out that the dispute on targets may be unnecessary. The irony, they suggest, is that many coal-fired power stations are scheduled to be taken out of commission only a few years after the date set for pollution reductions. Britain will then see a further sharp fall in emissions, and may, after all, meet the toughest proposed targets.

If this is the case, the UK government's awkward diplomacy on acid rain will, for a second time, have tarnished the appearance of a respectable environmental record. In the meantime, by insisting on keeping its options open, Britain is dealing itself a difficult hand, and its neighbours' frustration is unsurprising. If *"drittsekk"* is the only insult hurled at British cabinet ministers on the road to a new sulphur protocol, and Norwegian the only European language in which abuse is uttered, the government may consider that it has got off lightly.

LETTERS TO THE EDITOR

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No illusions over Bundesbank

From Mr Allan Saunderson.

Sir, As the editor of the only English-language newsletter focusing on German monetary policy I have to take issue with your contention that it is almost impossible for non-German analysts to understand what the Bundesbank is about ("Bundesbank stays tough", leading article, August 27).

It is very simple really. The Bundesbank has a legal mandate to combat domestic inflation. Its 1957 constitution makes no mention of cross-border responsibilities. And domestic growth and employment are accorded considerably lower priority. So why the puzzlement as to Bundesbank motives?

Two further points. First, there is a growing case for questioning if high nominal short rates are, under the present circumstances, the best method of bringing German money supply and inflation back under control.

They are artificially inflating time deposits (32.5 per cent of M3) to the detriment of longer-term forms of savings, and they are inducing speculative capital inflows that expand overall domestic liquidity.

Second, non-German financial professionals constantly overlook the fact that credit policy decisions in Germany are made by a Bundesbank council consisting of 16 members, each with one vote and an individual political affiliation.

Rate decisions are a matter of high politics in both a partisan and a personal sense within this closed forum – whatever the Bundesbank itself tries to maintain.

As long as many in the council, including its current president, continue to believe that high rates are the solution to unacceptably high inflation, the absence of cuts on July 29 and last week completely fulfils the Bundesbank's constitutional mandate.

There are, however, signs that a rethink of the current high-rate policy is being kindled by the newly appointed senior Bundesbank officials, particularly vice-president designate Johann Wilhelm Gaddum.

Such arguments have yet to win the hearts and minds of the council majority. But we believe that they will do so well before the end of the year.

Allan Saunderson,
editor,
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From Mr D A A Fagandini.

Sir In your leader of August 27 you point belatedly to the fact that the financial world is overwhelmed by English-speaking analysts and commentators. Nevertheless, your standpoint remains unchanged as you try to interpret the policies of the German central bank.

You continue to underestimate two considerations that influence the Bundesbank's decisions over and above its current statutory duties: first, that if there is to be a single European currency it will have to be indistinguishable from the D-Mark; and second, that the central bank responsible for a European currency will have to demonstrate – and be able to defend – its independence, not only from politicians but above all from the market.

It is obvious that the attitude in Frankfurt is that, if possible, no significant reduction in base rates should occur under market pressures and that, for as long as thunder continues to roll in New York and London, such corrections will be resisted. Too much is at stake.

It should be equally obvious that a majority of continental politicians are under no illusions. There is a deep-seated, if unstructured, demand for a higher degree of unity; it may be naive but it is a political reality that the UK has never fully appreciated.

Matters would be quite different if the cohorts of English-speaking analysts could point to decades of successful economic management where their advice was taken seriously.

Regrettably that is not the case. Those with whom we have felt most comfortable in the marketplace will always have the strength to safeguard their dollar.

Sterling, our once proud unit, will be left to its fate, and we to ask ourselves how that came about. No reasons are to be found in any of the memoirs of our politicians.

D A A Fagandini,
6 Alleyn Park,
London SE21 8AE

Go for less accuracy in forecasts

From Mr Ernest J Freyhan.

Sir, July's lower than expected public sector borrowing requirement figure (not, please, "number") followed hard on the heels of last year's lower than estimated current account deficit. Once again, this underlines the precariousness of short-term economic forecasts. And because of the growing likelihood of a lower than budgeted PSBR out-turn for the current financial year as a whole, it also points to inaccuracy in long-term forecasting.

So why can't forecasters take the hint and hedge their bets more safely by forsaking the dare-devilry of decimal-point precision, in favour of nothing more ambitious than half, or at most quarter percentage-point gradations only? (As if the difference between actual or forecast 1.2 and 1.3 per cent gross domestic product growth was at all meaningful.)

Let them remember, first, that the greater the accuracy aimed at, the poorer the accuracy likely to be achieved, quite apart from the ricketiness of underlying data.

Second, let awareness of their fallibility encourage more humility on their part and less gullibility on ours – both, admittedly, tall orders.

Ernest J Freyhan,
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Satellite and cable offer excellent choice

From Mr Alan Burkitt-Gray.

Sir, So who does have original programming on television these days, Christopher Dunkley could have asked before he savaged cable and satellite channels ("Scrambled Sky at a premium", August 25).

Look at the schedules for that day. At peak time, 9.30pm, all four terrestrial channels had repeats. Of course they also produce lots of their own material. So, in time, will the cable and satellite channels in the UK – just as, for example, Discovery's US parent is doing after only a few years in business. It already has fresh programming: last month it showed the four-part series, The Dinosaurs, later repeated by Channel Four.

Both Sky News and CNN International carry original programming of the most expensive kind all day (including FT Reports). I, for one, would not be without them. Meanwhile, this weekend the cable and satellite sports channels had live cycling, motor racing, motorcycle racing, horse racing, golf, tennis, athletics, soccer and rugby league. Not to my taste, perhaps not to Mr Dunkley's. But to offer such programmes is hardly "repackaging parasites".

What is wrong with repeats, anyway? The BBC has revived a 1960s cult by digging out Thunderbirds and today it is dedicating the whole day to a celebration of that decade. Is this very different from having Sunday's choice of The Six Wives of Henry VIII and Oliver Twist on UK Gold, Brighton Rock and Loot on Bravo?

Alan Burkitt-Gray,
editor,
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Pre-election tax cuts are same old story

From Mr Geyve Walker.

Sir, Why should it merit front-page headlines when the government plans to go into the next general election holding out the prospect of tax cuts?

Isn't this what they always do?

Geyve Walker,
The Old Vicarage,
Barton,
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FINANCIAL TIMES

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Tuesday August 31 1993

Scientists and supply

WARNINGS about the decline in Britain's science base – and the dire implications for the country's competitiveness – have been a feature of the British Association annual meeting for at least three decades. A particular theme this year at Keele is that the UK is producing too few trained scientists and breeding a scientifically illiterate younger generation.

The sharp decline in numbers taking science A-levels is causing alarm. So is the glaring contrast between empty places on university science courses and serious overloading in the arts and social sciences. And in the background is a sense of anticlimax following the science white paper three months ago; although it contained some good ideas, the government has not built on the opportunity it created to lead the case for British science.

The debate about how to attract more bright young people to the subject – and at the same time increase public understanding of science – contains so many strands, knitted together by so many people over such a long period, that it is sometimes hard to disentangle prejudice, anecdote and special pleading from soundly based argument.

For example, it it were true as alleged that the British education system had systematically, over many years, produced fewer scientists than business and academia needs, there is no doubt that their price would rise. And yet evidence from the UK job market points to a higher graduate unemployment rate in science than in arts and yields abundant evidence of poor salaries in scientific research. Manifest shortages do exist, but only in well-defined areas, such as top quality pharmaceutical scientists for the drugs industry.

Fundamental issue

There does not seem to be too much point in increasing the supply of scientists, if there is no demand for them. But that, of course, raises the question of whether Britain is using as many scientists as it should.

Apart from the fundamental issue of the relative size of its research and development effort, where Britain lags, there is the well-documented shortage of scientists in the upper reaches of management in British companies, as well as in the public sector. Research recently sponsored by the Economic and Social Research Council suggests that companies perform better if they have senior managers with scientific backgrounds.

Here the government is in a position to help – by making the civil service give a higher priority to science graduates when recruiting administrative trainees. This might also improve government's skill in handling the wide range of policy issues that touch on science and technology, from reprocessing nuclear waste to investing in new trains for British Rail.

Primary focus

On the supply side, action is certainly needed at all levels of the educational system, with perhaps a primary focus upon the 11 to 15 age range. Strong anecdotal evidence suggests that many older scientists working today were inspired originally by excellent science teaching in the early years of secondary school. Those teachers have retired and their successors are, on the whole, less inspiring; so the current generation of schoolchildren is being turned off science by dull lessons that seem both pointless and more difficult than other subjects. The government's bursary scheme for trainee science teachers is beginning to turn the tide here, but better financial incentives are still required to attract good scientists to teaching.

Further up the educational ladder, science would benefit from a broadening of the A-level system, so that all candidates studied at least one arts and one science subject to the age of 18. It should be recognised that such a change would increase the teaching burden on universities; most science students would start off knowing less than someone today with maths, physics and chemistry at A-level. It might even be necessary to add an extra year to many three-year undergraduate courses.

Change to the A-level system is something which the government has vigorously resisted for years. If it is serious about bringing science and scientists to greater prominence in education and business, it will have to change its mind.

Time for unity in Nigeria

UNLESS NIGERIA'S civilian leaders settle their differences, the grip of the military will tighten and the country's crisis will deepen.

The promise by Chief Moshood Abiola to return to Lagos this week and claim the presidency denied him is dangerous and impractical. The bellicose response from Chief Ernest Shonekan's new interim government, equating such an act with insurrection, smacks of a military diktat. Neither serves the interests of 80 million anxious Nigerians.

United the two men are better placed to demand that the military fulfill its promise to hand over to civilian rule; divided they may provide General Ibrahim Babangida with a pretext to return.

The general, who ostensibly stepped down last Thursday as Nigeria's military leader, has left a dangerous legacy. The new interim civilian government has little popular support, and the military regime behind it is divided. Babangida loyalists wish to extend military rule, some officers are anxious to return to barracks, while others believe it is their turn to plunder state coffers.

Meanwhile the economy continues its rapid deterioration. The country's structural adjustment programme has lapsed, and mounting arrears push external debt towards $34bn, well beyond the country's capacity to service. A general strike called in support of Chief Abiola paralyses Lagos and threatens to disrupt vital oil exports. Last week's announcement of a ten-fold increase in the price of a new premium grade of petrol coincided with a nationwide shortage of the lower grade fuel, infuriating the public and risking massive protests when the holiday weekend finishes today. Confronted by the country's worst crisis since the Biafran civil war in the 1960s, civilian politicians are split into two camps.

Pragmatic argument

One supports the interim government led by Chief Shonekan, albeit with generals in charge, but has promised fresh elections by March next year. The other insists that Chief Abiola's victory in the annulled June presidential poll be put into effect.

Both have a case. The former is based on the pragmatic argument that civilians must make the best of the army's terms; the latter rests on the principle that the electorate's verdict should be respected, and maintains that the army's record of broken promises warrants confrontation.

Ethnic rivalries

But underlying a division over tactics are tense ethnic rivalries, with the Yoruba south lining up behind Mr Abiola, and the Hausa-Fulani north seeking a second chance to win the presidency.

Before Mr Abiola risks a confrontation that could split the nation, Mr Shonekan should be given time to show that his alternative could work. Admittedly there is good reason to be sceptical. The previous interim government was also led by Mr Shonekan. Within weeks it became clear that the civilians were powerless.

Nor does the new cabinet inspire confidence. It includes a minister of information who enthusiastically endorsed the recent banning of several newspapers. The proposed minister of planning is a vociferous critic of the economic reforms Mr Shonekan tried unsuccessfully to revive.

If Nigerians are to be convinced that this time round things are different, he has to act swiftly. He has already taken some first steps, persuading the military to shorten the transition period from 12 to six months. Over the weekend he released jailed journalists and human rights campaigners. He should follow this by lifting the newspaper ban.

But above all he should seek an accommodation with Chief Abiola, in which together they keep up pressure on the military. The chief should be guaranteed safe passage when he returns home, together with the right to contest the March election. In return Mr Abiola should suspend his threat to form a Lagos-based government.

The generals may object: in which case the interim government is exposed as a sham, and Nigeria's prospects are bleak indeed. But in the meantime Mr Shonekan annd Mr Abiola owe it to their country to exchange olive branches, not epithets. The sooner the two men find common cause, the better the chance that democracy will finally come to Nigeria.

Peace plan poised on a hair trigger

Julian Ozanne and Andrew Gowers on the potentially momentous outcome of secret Israeli-PLO talks

Jericho, for all that its name resonates with history, now seems just another sleepy, dusty Palestinian town in the Israeli-occupied part of the Jordan valley. But if an extraordinary deal hammered out in secret by Israeli and Palestinian representatives in recent weeks becomes reality, it may just be in for something of a revival.

If it is consummated and implemented, Israeli troops will withdraw from the Jericho area and from the Gaza Strip, both of which they have occupied since the six-day war of June 1967. For the first time since the foundation of the state of Israel in 1948, their Arab inhabitants will be allowed substantial control over their own affairs as part of a five-year interim arrangement for Palestinian self-rule.

And with a lot of luck, a conflict that has claimed thousands of lives and several times brought the world close to war in the past 45 years will have taken a small but momentous step towards resolution.

A signed accord between Israel and the Palestinians would itself be of enormous psychological significance, especially if it entails mutual recognition between Israel and the Palestine Liberation Organisation, a body that Israelis have grown used to excoriating as a terrorist group bent on their destruction. Progress in Israeli-Palestinian talks could also trigger movement in separate peace negotiations between Israel and Syria, which could – eventually – open the way to a comprehensive Middle East peace agreement.

These developments would have seemed all but inconceivable even a few weeks ago. The Arab-Israeli peace talks launched in Madrid in October 1991 had dragged on for 22 months with little tangible sign of progress, and no sign of preparedness by the Israelis or Palestinians to budge from long-entrenched positions. Now, all of a sudden, almost

Even a summit meeting now seems possible between the dour Mr Yitzhak Rabin and Mr Yassir Arafat

anything seems possible – even, someone suggested yesterday, a summit meeting between Mr Yitzhak Rabin, Israel's dour, growling prime minister, and Mr Yassir Arafat, mercurial chairman of the Palestine Liberation Organisation.

Small wonder that seasoned Middle Eastern observers were yesterday reeling in disbelief – or that sceptics were pointing to the many hurdles that have still to be surmounted.

What has stimulated the current anticipation is the fact that Israel – in the person of Mr Shimon Peres, the country's veteran foreign minister – and the PLO have already apparently reached an outline agreement. According to Israeli and Palestinian officials, the document was finalised at a secret meeting last week in Norway between Mr Peres and Abu Mazen, the PLO official responsible for peace talks. It is expected to be signed formally at the Washington peace talks, which enter their eleventh round this week.

Many of the most difficult and sensitive details remain obscure. But what is known is that it outlines a comprehensive plan for a five-year period of interim Palestinian self-rule in the West Bank and Gaza Strip, two or three years into which "confidence-building" phase, talks about the final status of a Palestinian "entity", probably in confederation with Jordan, will begin.

At the heart of the agreement is the so-called "Gaza-Jericho First" plan which envisages an Israeli military withdrawal from the Gaza Strip and from a hitherto undefined enclave around Jericho. Gaza, a 360 sq km sliver of land, is home to 780,000 economically deprived Palestinians, many living in sprawling squalid shanty towns. A Palestinian elected interim authority will assume full control over Palestinian affairs in Gaza-Jericho but its powers will fall short of a Palestinian mini-state. In the rest of the occupied West Bank, excluding east Jerusalem, the Palestinians will have lesser powers over their affairs.

There are sufficient uncertainties to warrant caution about whether the deal will stick. The extent of Israeli withdrawal, for example, remains unclear. The PLO has said the agreement provides for a full withdrawal of Israeli troops and military administration. Jerusalem says the agreement means a troop redeployment away from the population centres in Gaza-Jericho but leaves the Israeli army with a security role for settlers in Gaza and for the critical road between Jerusalem and the Allenby bridge border crossing into Jordan. It is also unclear whether Israel will agree to PLO interpretations of the agreement that as soon as the document is signed the PLO leadership, including Mr Arafat, will be able to relocate to either Jericho or Gaza.

Despite the doubts, however, the agreement may be different from the dozens of other peace plans that have littered the map of the Middle East – partly through its design, and partly as a result of the atmosphere in which it has been constructed.

Mr Arafat, in particular, has been under intense pressure to strike a deal. As a result it was the the PLO, bereft of powerful friends, crippled by internal dissension, mounting criticism from extremists, and a cash crisis, that played the key role in bringing both sides to a draft settlement.

From Mr Rabin's point of view, the deal is carefully crafted to deflect potential domestic criticism. Firstly, it leaves untouched the largest potentially hostile community – the estimated 120,000 Jewish settlers in the West Bank. The most directly affected settlers – the small community of 4,000 in Gaza – have long been told that they will eventually have to move.

Secondly the agreement has no serious impact on Israel's borders or its security arrangements. Indeed, Mr Rabin can exploit widespread enthusiasm for getting rid of Israel's major security headache – the Gaza Strip, which has long been the scene of the worse Palestinian attacks against Israeli soldiers.

Thirdly the Israeli public has become gradually accustomed to the government talking to the PLO – a move Mr Rabin argues was implicitly sanctioned by the previous Likud government at the 1991 Madrid conference.

Nor – despite mounting accusations of betrayal from the right yesterday – does Mr Rabin need to worry that the proposed deal poses a threat to his coalition. For the moment he has an unshakeable majority in the Knesset of 67 votes to 53. Although his coalition is fragile owing to a continuing row with a small religious party, the Knesset coalition for peace is much more solid.

All these factors have led the government to believe it has a window of opportunity now to do a deal with relatively small concessions to the Palestinians.

Its attractions to the Israelis are many. It seems to contain PLO concessions on the ultra-sensitive question of who should control Jerusalem, long claimed by Israel as its "eternal and indivisible capital". Also, the autonomy arrangements for Gaza-Jericho provide maximum reassurance: although the Palestinians will have full internal powers over education, health, economic policy and housing over the estimated 900,000 population of Gaza-Jericho, Israel will continue to be the predominant authority by virtue of the enclaves' dependence on Israel proper. It is bound to exploit this economic dependence to the limit as a way of ensuring that the interim Palestinian authority toes the line.

But the agreement does have its attractions for the 84-year-old Mr Arafat as well. It appears to deliver a tangible and rapid step towards Palestinian self-rule. And it should allow the PLO to make a quick start in tackling the deteriorating conditions of Palestinians in the territories who have been drawn to the Islamic fundamentalism of the Hamas movement.

The challenge is herculean. If the PLO fails, Israel would have no reason to cede control over any more of the West Bank. If it succeeds in Gaza-Jericho, however, the Palestinian people may be on the road to claiming a respectable portion of its rightful inheritance.

Chronology of the conflict

May 1948 - First Arab-Israeli war; Israel annexes large portions of proposed Arab state in Palestine.
1956 - Egypt nationalises Suez Canal. Israel attacks Sinai peninsula, pushes towards canal. Anglo-French troops invade Egypt. Israeli, British and French forces withdraw under US pressure.
1964 - Arab states create the Palestine Liberation Organisation.
June 1967 - Six-day war: Israel attacks Egypt, Syria and Jordan, captures Sinai Peninsula and Gaza Strip from Egypt, the Golan Heights from Syria, and the West Bank and East Jerusalem from Jordan.
November 1967 - UN Security Council passes Resolution 242, basis for international efforts to secure a land-for-peace agreement, calling for Israeli withdrawal, recognition of all states in the area and a refugee settlement.
1969 - Yassir Arafat (left) becomes PLO chairman.
October 6, 1973 - Egypt and Syria attack Israeli forces in Sinai and Golan Heights on the Jewish feast of Yom Kippur. The war is inconclusive.
October 22, 1973 - UN Security Council Resolution 338 calls for a ceasefire, implementation of Resolution 242 and immediate peace negotiations.
1974 - Arab states recognise PLO as sole legitimate representative of the Palestinian people.
September, 1978 - Egypt, Israel and the US sign Camp David accords, offering limited autonomy to Palestinians in occupied territories.
1979 - Israel, Egypt sign treaty. Israel agrees to return Sinai Peninsula to Egypt but keeps Gaza Strip.
June, 1982 - Israel invades Lebanon to drive out Palestinian guerrillas.
December 1987 - Intifada (uprising) against Israeli rule breaks out in West Bank and Gaza Strip.
November 1988 - Palestinians in exile declare own state, implicitly recognising Israel.
December 1988 - Arafat recognises Israel's right to exist and renounces terrorism.
April-May, 1991 - US seeks support for regional peace talks.
November 1991 - Madrid conference launches peace talks.
August 1993 - Israeli PM Yitzhak Rabin (top left) and Foreign Minister Shimon Peres (bottom left) open talks with PLO.

United in disunity

Mark Nicholson and Lamis Andoni on the Arab mood

Never in the 22 months of the Middle East peace process have minds been more wonderfully concentrated. To its advocates, the "Gaza-Jericho first" proposal offers for the first time the prospect of Palestinian autonomy in the lands occupied by Israel in 1967. To its opponents, it is a "catastrophe", in the words yesterday of Mr Abdul Aziz Rantisi, the exiled leader of Hamas, the Palestinians' militant Islamic movement. The next few weeks will show whether Mr Rantisi and other rejectionists can avert this "catastrophe".

For the moderate Arab governments who have pressured the Palestinian leadership to agree to this first, limited form of autonomy, the "Gaza-Jericho first" proposal is the start of the endgame. Mr Amr Moussa, the Egyptian foreign minister, welcomed the proposed deal as such yesterday, saying any withdrawal of Israeli forces from occupied lands was welcome, though only so if it was the first step in a greater disengagement.

But the rejectionists within the Palestinian fold signalled their profound distaste for a deal which they see as a sell-out by a beleaguered Mr Yassir Arafat, chairman of the Palestine Liberation Organisation. Can organisations such as Mr Ahmed Jibril's radical PFLP-GC and Hamas, which has been the main beneficiary within Gaza and the West Bank of the long stalemate in the peace process, muster the force to stop the proposal? The answer will lie partly in the hands of the sponsors of these groups, who have a habit of playing the rejectionist card for their own ends – most particularly Syria and Iran.

Very little is ever clear about the strategy of Syria's President Hafez al-Assad, except that it involves patience and caution. But he has already shown willingness to rein in rejectionist groups his government sponsors in the interests of an eventual peace. The recent decision to lean on Hizbollah, the pro-Iranian and deeply rejectionist guerrilla group, after its attacks on Israel prompted a week-long bombardment of south Lebanon, was the most telling example – and seems to have cleared the air in the Syria-Israel peace talks.

But whether Syria would be prepared to act similarly with respect to groups such as Mr Jibril's is unclear. Equally, there is doubt as to whether either Syria or Iran can decisively control rejectionist groups which have garnered increasingly strong grass-roots support in the occupied territories.

Mr Assad is not in a strong position to argue with them, given that many Palestinians see him as hastening to conclude a "separate peace" with Israel involving the return of all or part of the Golan Heights, captured by the Israelis in the 1967 war. The Syrian leader's repeated assertions that he has no intention of proceeding to a full peace with Israel without them do not cut much ice with Palestinians mindful of the violent history of their relations with Damascus.

Those who oppose the current peace plan argue that once a limited autonomy deal is concluded, Syria will move full-speed to a broad normalisation of relations with Israel. The result, say the critics, could be a matter of "Gaza-Jericho last" as well as first, with the Palestinians having to settle for exercising self-rule only in those two small enclaves.

Syria's attitude – and Jordan's, a country whose own peace deal with Israel is all but done – may also be influenced by the way the present proposal was reached substantially without their consultation. Some observers suggested yesterday that this could prompt both countries to take a harder line with Israel, partly so as to resist pressure to make greater concessions themselves. Both Amman and Damascus were notably muted yesterday in their response to the proposal.

Much will depend on the contents of an eventual "Gaza-Jericho" agreement. If it appears to open the way for direct linkage between an interim period of Palestinian autonomy and a final agreement – one which would address the still unresolved issue of the status of Jerusalem – it would be hard for either Syria or Jordan to hold out against the PLO-negotiated deal.

But if opposition to the deal deepens and widens, both within the occupied territories and among the hundreds of thousands of diaspora Palestinians in Lebanon, Syria and Jordan, then Jordan, in particular, could decide to position itself for a broader agreement giving it greater control over the occupied West Bank. Syria, too, might then decide that it cannot peg its own peace with Israel to an interim agreement which proves to have broad, grass-roots opposition among the Palestinians.

The key, in both cases, will be the degree of Palestinian opposition to the agreement. Many independent Palestinian groups, and even many in the mainstream Fatah group, have already voiced doubts about "Gaza-Jericho".

Mr Arafat will have to demonstrate to the Palestinian rejectionists that this deal will be tightly linked to a comprehensive settlement leading to a total Israeli withdrawal from the occupied territories, and recognising the right of diaspora refugees to return.

Whatever else the "Gaza-Jericho" proposal will achieve, it appears already to have shifted the fundamental axis on which the peace process will turn. As Mr Mohammed Sayed Ahmed, the Egyptian commentator, noted yesterday: "We are no longer looking simply at an Arab-Israeli confrontation – now the confrontation is within the Palestinian camp."

OBSERVER

"Do you have to bring your work home with you?"

Black horse's uncertain bet

Now that Barclays has roundly trumped National Westminster, bringing in 41-year-old Martin Taylor, who beats Derek Wanless by four years in the chief executive youth stakes, the question of succession at Lloyds recurs, both men being a generation younger than Lloyds' 61-year-old boss.

Brian Pitman, a wise old bird who has avoided some of the obvious pitfalls of the last decade, will bow out in 1995, three years after the bank's retirement age.

Inside favourites as next-in-command include 51-year-old Paul Brown, and a talented linguist, now heading retail banking. Another front-runner, David Pirrie, three years his senior and in charge of international and private banking, was in 1986 tipped to run Standard Chartered had that eccentric bid gone through. John Anderson, boss of Lloyds' National Bank of New Zealand, is also thought to be in with a chance, even if his British banking experience is limited.

None, however, is a sure-fire custodian of Lloyds' daunting reputation as the UK's best-managed bank, so perhaps it is time to search the younger echelons. There are a couple of bright regional heads: Gordon Pell, 43, in charge of Thames Valley, and Dennis Holt, 44, for the south-west. Or perhaps Michael Hepher, 49, who departed for British Telecom two years ago, could be lured back.

The real, but unlikely, trump would be a female candidate. Prominent as City regulators – think of Frances Heaton of the Takeover Panel or Rosalind Gilmore at the Building Societies Commission – women have yet to breech the formidable terrain of the senior clearing bank hierarchies.

Nor is the current fad for ex-journalists – Taylor but also Rupert Pennant-Rea – a rich vein. Sarah Hogg, ex-Telegraph journalist turned Number Ten policy unit head, was an outsider as the next Bank of England governor, but running number three of Britain's "big four" clearers might be a come-down for one sometimes assumed to be running the country.

Saint Deng

■ Which world leader watched 50 of the 52 matches televised in the 1990 soccer World Cup, is an avid bridge player and saw his son paralysed by being thrown out of a window by his own guards?

Despite his public disapproval of the cult of personality, Deng Xiaoping, China's paramount leader, has allowed the Chinese taboo against publishing an account of the life of someone still alive to be infringed with the publication of his biography. Written by his daughter, Deng Rong, it is now being serialised in mass-circulation Chinese newspapers.

But Rong's rose-coloured prose allows for no hint of scandal in her beloved father's life. She provides some details of his student days in France – where he developed decidedly bourgeois tastes for wine, cheese, coffee, bridge and his life-long interest in soccer – and in Moscow.

Deng had three wives; the first died in childbirth in 1930, the second left him after a political disagreement in 1933, and the third, whom he married in 1939, produced five children. Rong is the youngest.

Having just turned 89, his "meeting with Karl Marx" cannot be far off; the tone of the book suggests that Deng is moving from the realm of earthly being towards communist sainthood.

Grecian 900

■ Bosnian Serb leader Radovan Karadzic, whose troops control about 70 per cent of Bosnia, is not a name usually identified with peace and ethnic harmony.

So some surprise to see that the Greek Orthodox Church has appointed him a member of the 900-year-old Knights' order of the first rank of Saint Dionysius of Xanthe for "his contribution to peace in the world".

However, the medal probably says more about the ever-blossoming Greco-Serbian alliance than Karadzic's contributions to humanity.

Serbian president Slobodan Milosevic, a close friend of Greek prime minister Mitsotakis, who has lobbied for his Slavic neighbour, is planning to visit Greece early next month.

Risky business

■ Glad to hear bassoonist and economist Bill Robinson has found another opportunity to earn a crust, three months after losing the last one as special adviser to Norman Lamont.

Robinson starts work tomorrow with London Economics, run by John Kay and Nick Morris, where his main task will be to extend the consultancy's established reputation in microeconomics into the macro arena.

So how is the jobs market for former advisers to sacked chancellors? Working in a think tank did not appeal – "I've done that before at the Institute of Fiscal Studies," says the ever-affable Robinson. And talk with three City firms "did not work out".

Meanwhile, will London Economic's corporate clients be prepared to pay good money for forecasts of inflation rates and trade deficits?

"We want to develop techniques for macroeconomic risk management," he says. "People are a bit disillusioned with forecasting."

Unchristian

■ A burglar rifling a house was suddenly surprised by a voice saying: "Me and Jesus are watching you." Frightened, the burglar swung his torch round desperately until he spotted the culprit, a parrot.

Recovering his composure, the burglar asked the parrot what it was called. "Imogen," replied the bird. "That's a silly name for a parrot," said the burglar.

"Not half as silly as calling a rottweiler Jesus," chirped the bird.

FINANCIAL TIMES
Tuesday August 31 1993

Bold initiative demanded to rescue monetary and economic union

Delors issues Maastricht warning

By David Gardner in Brussels

MR Jacques Delors, president of the European Commission, has issued a new call to arms to the partisans of a federal European union. He warned that unless a bold "new initiative" emerges quickly, the Maastricht treaty and its envisaged economic and monetary union will be a dead letter.

"Why should we hide it? If we go on like this, there will be no convergence in economic policies and, consequently, no single currency. The commitments in the Maastricht treaty will come to nothing," Mr Delors told a weekend meeting of his French Socialist supporters in Brittany.

The Commission president, politically bruised by the year-long delay in ratifying Maastricht and the damage to the credibility of the Emu project caused by this month's near implosion of the European exchange rate mechanism, warned that Europe faced sinking into decline through "the absence of a broad and long-term vision".

"This risk is so obvious in the light of Europe's powerlessness that one might well expect a startled rebound on the part of certain heads of state and government," Mr Delors said, in implicit reference to the hopes now placed in the EC's traditional Bonn-Paris axis to get European integration back on the rails.

The Commission president's wide-ranging speech was more analytical than prescriptive, peppered with references to the "myopia and insouciance" of some nationalist and "ultra-liberal" EC governments which he said saw Europe merely as a giant free trade zone. He derided the embryonic common foreign and security policy contained in Maastricht as a racing car with a two-stroke engine, incapable of handling a crisis like Yugoslavia, even if a joint foreign policy structure were already fully functional.

He said that the EC's classic strategy of "small steps forward" had "reached its limits", and that the time had come "to spell out the political Europe that we want". This, he said, was "the federal approach, which alone sets limits to the powers of European institutions, and guarantees the powers of the nation-states and regions".

On Emu, he insisted there was no remedy in reorganising the ERM, "even if that in itself would be welcome". The real danger was in allowing further delay.

This remark squares with the EC's formal agenda of getting the second stage of Emu – with a European Monetary Institute as forerunner to a European central bank – set up by January. But some observers and colleagues yesterday saw Mr Delors' call as encouragement for a mini-Emu, with the EC's harder currencies grouping in close monetary cooperation around the D-Mark, to prevent the project evaporating.

Mr Delors' aides said his speech was a broader plea for a relaunch this autumn of EC integration. But officials from EC Christian Democrat parties say that talks on how to forge close monetary co-operation between Germany, France and the Benelux countries began in the margins of the August 2 meeting which decided to loosen the ERM fluctuation bands to 15 per cent.

Alphandéry says France will retain tight monetary policy

By David Buchan in Paris

THE French government yesterday suggested – in highly qualified terms – that its cautious monetary policy was helping to stabilise the economy, despite the news that unemployment rose further to 11.7 per cent in July, from 11.6 per cent the month before.

Mr Edmond Alphandéry, the economy minister, claimed that "the hypothesis of [the economy] emerging from the tunnel [of recession] at the end of this year or at the latest at the start of 1994 is far from unrealistic".

In his interview with La Tribune newspaper, the minister, evidently chastened in his public pronouncements by the recent monetary storms, said that after the rate of decline in industrial production had slowed in the first half of this year, "to all appearances, we are therefore now at the bottom of the cycle, at a weak level of economic activity".

But with long-term interest rates still slightly below those of Germany, and short-term rates again finding their pre-August crisis level, the minister said the government had no intention of "changing the direction" of its economic and financial policy.

The one lesson to draw from the recent crisis of the European exchange rate system was that "economic convergence is a precondition for monetary convergence", Mr Alphandéry said, in a marked shift from the position held by previous French ministers during the Maastricht treaty negotiations.

France's conversion to the necessity for convergence with Germany was reflected, Mr Alphandéry said, in the decision by Bonn and Paris to work together in preparing medium-term budgetary plans.

Despite the claims of ministers to see light at the end of the economic tunnel, the government itself has forecast that unemployment will keep rising until early 1994. It has moved to improve the cash position of companies by refunding their VAT payments more quickly, but most are reluctant to hire new workers until they see real evidence of a pick up in consumer demand.

Mr Alphandéry said there was now evidence of improvement in the beleaguered construction sector, but admitted many sectors were still in recession.

People's Daily turns to the party to lift sales

By Tony Walker in Beijing

CHINA might be embracing market socialism with Chinese characteristics, but the rigours of the marketplace are not for the People's Daily, the Communist party newspaper.

Alarmed by a steep slide in the paper's circulation, the party has come up with a characteristically communist solution to the daily's woes.

Party officials throughout China have been urged in a directive to "pay attention" to the paper's circulation.

The directive, published prominently on the daily's front-page, orders "all party branches" throughout the country to subscribe. It requires that the newspaper be at the top of subscription lists for all government organisations, and instructs post offices to promote the paper.

Under the headline "People's Daily circulation must go up", officials have been told that, "to promote and circulate the People's Daily must be taken as a serious political task instead of regular commercial work".

The party newspaper, which features a stodgy diet of political commentaries and uplifting news, has been facing ferocious competition from a flood of new publications, including brighter and breezier tabloids. Circulation has plummetted from a high a few years ago of about 6m copies to less than 3m today.

"People's Daily is the throat and tongue of the central committee and of people of all nationalities," said the directive. "It is one of the main channels that the cadres and broad masses learn about the spirit of the central committee and the State Council [cabinet]. It is also an important window through which the outside world observes and understands China."

Israel agrees to peace deal

Continued from Page 1

Mr Peres said yesterday Israel could now recognise the PLO as part of the deal if the organisation *completely* renounced violent acts and gave up parts of its charter calling for the extermination of the Jewish state.

Once signed, the deal could trigger progress on three tracks of stalled bilateral peace talks between Israel and Syria, Jordan and Lebanon.

In Israel both Israeli and Palestinian extremists accusing their leaders of betrayal. Rightwing parties in Israel's parliament heckled Mr Peres yesterday as he tried to explain the peace package and last night up to 2,000 rightwing demonstrators protested outside the cabinet meeting.

Rightwing settler leaders pledged themselves to a programme of civil disturbances and warned of more violent action.

France criticised over stance on world trade

Continued from Page 1

predicted. The round was launched in 1986, but stalled in 1992 because of EC-US conflict on farm trade reform.

The French push follows a meeting last week between Mr Edouard Balladur, France's prime minister, and Chancellor Helmut Kohl of Germany, when Mr Kohl appeared to endorse France's call for renegotiation.

German officials have been at pains since then to insist that the German leader's comments were misinterpreted. But the confusion in their wake has led to speculation that the EC might be forced to renege on a deal that took a year to negotiate.

Mr Peter Sutherland, the new director general of the General Agreement on Tariffs and Trade, is expected to give a clear but coded signal to France to modify its position when he kicks off the autumn negotiations at a top-level trade negotiations committee in Geneva today. He will call for governments to exert political leadership in the face of pressure from lobbies.

Senior officials in Mr Kohl's office yesterday reiterated that Germany did not seek formal renegotiation of the US-EC farm agreement. They said the government was aware that Blair House could not be renegotiated, even in parts, without putting the Uruguay round at risk.

A spokesman said the Blair House accord had "neither been signed nor finally signed ... It is of great importance that this agreement is compatible with the EC common agricultural policy." Mr Sutherland will meet Mr Kohl in Bonn tomorrow to seek clarification of last week's comments. A meeting with Mr Balladur is scheduled for next Wednesday.

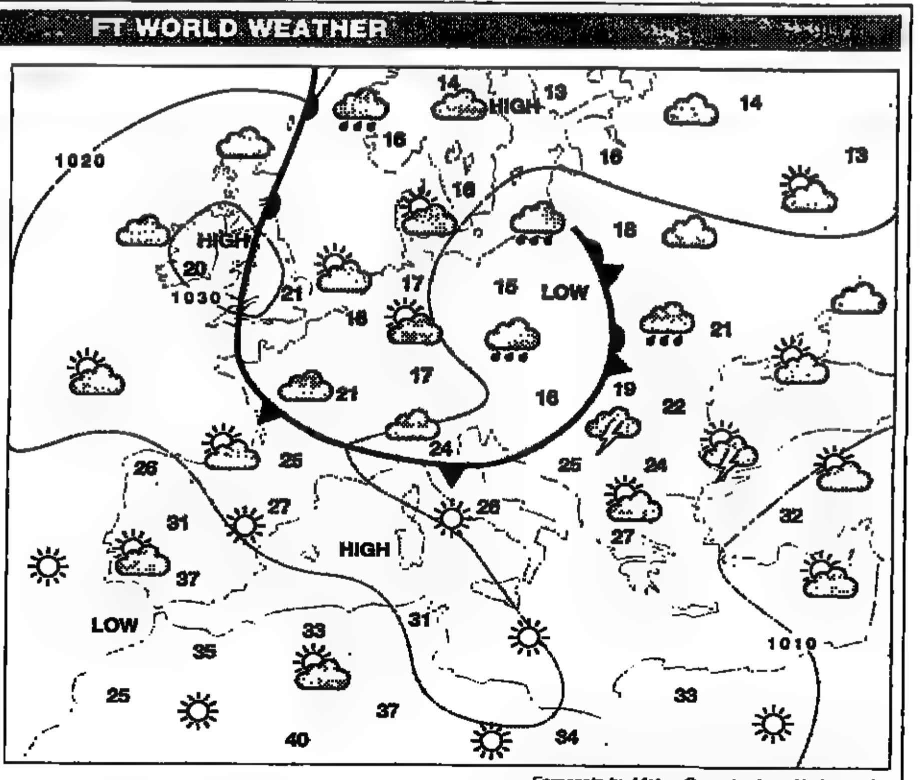
FT WORLD WEATHER

Europe today

Scandinavia will be mainly cloudy with outbreaks of rain over Norway. Afternoon readings will be below normal, ranging from 8C in the north to 17C in the extreme south. Eastern Europe will be rainy and unseasonably cold under a low pressure area. As the low heads east, cooler air will move into the Balkans with a local shower in the north. The British Isles will have sunny intervals as high pressure builds over the region. The Low Countries, Germany and northern France will have a mixture of clouds and sunshine with moderate temperatures. Southern Europe will be mainly sunny and warm, with temperatures *reaching 35C in the southwest of Spain.*

Five-day forecast

Low pressure will remain over northern and eastern Europe. As a result, it will be mainly cloudy with outbreaks of heavy rain at times. Unseasonably cool conditions will prevail until this weekend. The British Isles, the Low Countries and northern Germany will have some sunny intervals, but also showers, especially later this week. Afternoon readings will be below normal. South-western Europe will be mainly sunny and dry, but south-eastern Europe will have thunder storms at the end of the week.



Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

Maximum Celsius

Abu Dhabi	sun	42
Accra	fair	28
Algiers	sun	32
Amsterdam	cloudy	18
Athens	sun	28
B. Aires	fair	14
B.ham	fair	21
Bangkok	rain	32
Barcelona	sun	27
Beijing	fair	29
Belfast	fair	20
Belgrade	fair	23
Berlin	rain	16
Bermuda	shower	31
Bogota	cloudy	18
Bombay	cloudy	30
Brussels	fair	18
Budapest	thund	15
C.hagen	fair	17
Cairo	sun	40
Cape Town	fair	15
Caracas	shower	30
Cardiff	fair	21
Chicago	thund	23
Cologne	cloudy	18
D' Salaam	thund	27
Dakar	shower	30
Dallas	thund	31
Delhi	cloudy	33
Dubai	sun	40
Dublin	fair	20
Dubrovnik	sun	25
Edinburgh	cloudy	18
Faro	fair	29
Frankfurt	cloudy	20
Geneva	fair	21
Gibraltar	sun	25
Glasgow	cloudy	18
Hamburg	fair	17
Helsinki	cloudy	13
Hong Kong	fair	31
Honolulu	fair	31
Istanbul	fair	24
Jersey	fair	18
Karachi	cloudy	33
Kuwait	sun	46
L. Angeles	fair	25
Las Palmas	sun	26
Lima	cloudy	21
Lisbon	fair	32
London	fair	21
Lux.bourg	cloudy	19
Lyon	sun	22
Madeira	fair	25
Madrid	sun	31
Majorca	sun	30
Malta	sun	29
Manchester	fair	20
Manila	shower	31
Melbourne	cloudy	18
Mexico City	shower	19
Miami	thund	32
Milan	fair	27
Montreal	fair	28
Moscow	cloudy	13
Munich	fair	16
Nairobi	cloudy	25
Naples	sun	27
Nassau	shower	31
New York	fair	30
Nice	sun	23
Nicosia	sun	38
Oslo	fair	17
Paris	fair	21
Perth	rain	17
Prague	rain	14
Rangoon	rain	30
Reykjavik	rain	14
Rio	cloudy	24
Riyadh	fair	42
Rome	sun	26
S. Frsco	fair	27
Seoul	shower	28
Singapore	shower	31
Stockholm	cloudy	12
Strasbourg	fair	21
Sydney	fair	18
Tangier	fair	32
Tel Aviv	sun	31
Tokyo	fair	28
Toronto	shower	25
Tunis	sun	31
Vancouver	sun	24
Venice	shower	23
Vienna	shower	15
Warsaw	rain	12
Washington	sun	32
Wellington	fair	12
Winnipeg	fair	20
Zurich	fair	19

THE LEX COLUMN

A gamble at Ladbroke

Given the financial strains on Ladbroke, it is worth asking whether the board would be wise to choose between a rights issue and a dividend cut with its interim figures this week. Balance sheet gearing and total outstanding debt are both uncomfortably high, while potential disposals would fetch little more than book value and cut gearing only marginally. A rights issue would bring greater comfort to the company's finances.

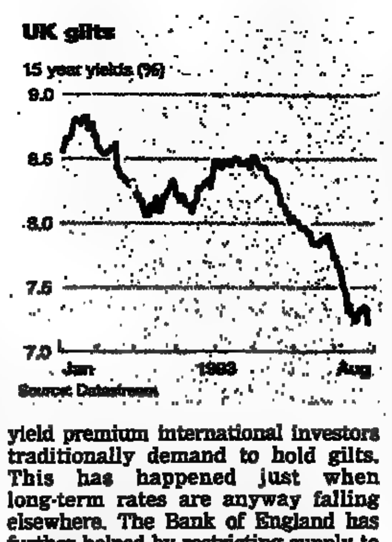
On the other hand, the dividend is clearly out of line with the underlying trading prospects of the group. If the company were to follow Forte's lead, it would cut its dividend to a sustainable level, then try to regain credibility with the market before deciding how to proceed. Certainly attempting a rights issue while the threat of a dividend cut was still in the air would make many institutions gag – all the more so if it were below the level of the 220p issue in 1991.

Then again, Ladbroke's chairman, Mr Cyril Stein, is proud of his unbroken dividend record over a generation. *He will be loath to spoil that in the* latter part of his career. The temptation will be to soldier on until things improve. That, however, will mean more shareholder value leaking away to the banks through high interest charges. Perhaps the company might risk further market displeasure by cutting the cash outflow of dividends and sneak in a mini-rights issue through another enhanced scrip dividend. It may even be tempted to follow the lead of Rank, and roll the full-year dividend into the interim as a larger enhanced scrip. With Ladbroke's high yield, however, that would mean adding more than 10 per cent to the equity which needs to be serviced in future years.

Gilts

After their decline of more than a full percentage point this summer, it seems nothing can stop long-gilt yields falling further. Not only has recovery got under way at home without rekindling inflation; the climate also looks unusually positive abroad. US bonds have been boosted by dwindling inflationary fears, while in Europe the Bundesbank stands determined. Its reluctance to cut its discount rate does not help short-dated European bonds, but, by damping inflationary expectations, it does maintain downward pressure on long-term yields.

A sense that the UK may have beaten inflation, too, has reduced the



yield premium international investors traditionally demand to hold gilts. This has happened just when long-term rates are anyway falling elsewhere. The Bank of England has further helped by restricting supply to the long end of the gilt market so that UK institutions are short of paper.

In theory, there could be room for further gains if inflationary expectations are poised to settle at 3 per cent or even less. Real rates could fall as uncertainty abates, a development which would benefit index-linked as well as conventional gilts. Just the same, the fact that the market has continued to advance amid diminishing expectations of tax increases in November suggests an air of unreality. Not just in the UK, but around the industrialised world, government finances are in a mess. Bond markets are in dangerous territory when they start believing that does not matter.

UK pharmaceuticals

There have been false dawns before during the great derating of the pharmaceuticals sector. But recent gains against a rising stock market suggest that drug stocks are at least attracting bargain hunters. Since the outlook for the industry has barely changed, there is no obvious reason for a renewed burst of optimism. Although President Clinton's healthcare reforms look unlikely to include direct price controls, the concentration of power among big buyers of healthcare is having the same effect. The worst of the pain arising from reform in Germany and Italy may be over, but France and Spain have yet to show their hands.

The question, then, is whether drug shares offer fair compensation for the continued risk of government intervention. Earnings growth will certainly be below the heady levels of the 1980s, and little better than that achieved by other industries during recovery. Price earnings multiples below the market average now reflect that. More importantly given the dwindling returns on cash, Glaxo and Zeneca yield more than the market average. With a good record of cash generation, and a large cash pile in the case of Glaxo, dividend growth looks assured.

If investors are starting to look at drugs companies in terms of total returns rather than just earnings growth, the recent rally in the shares may have further to run. The fog of uncertainty should clear when the details of President Clinton's reforms are unveiled in the autumn. But while the industry reshapes to accommodate whatever new world order appears, it would not do to expect too much.

UK regulation

The news that the Securities and Investments Board is looking again at regulation of the UK equity market is certainly welcome. After the controversy over market manipulation and the degree of control exercised by SG Warburg during the BT3 issue, some clear and widely accepted guidelines need to be established before further large equity issues come to market.

Yet the SIB and the Stock Exchange seem to have retained the leisurely approach which led to the BT3 problem in the first place. Almost a year elapsed between the Wellcome and BT3 issues during which time little was agreed. Now the SIB has given itself until the turn of the year to produce a wide-ranging discussion document, while the secondary offer of the generators' shares may well take place in the spring. The Stock Exchange, which scarcely covered itself in glory over BT3, is now not prepared even to venture an opinion on the subject.

The self-regulatory framework has attracted great criticism, and practitioners must now prove that they have something to add to the operation of the system. If some of the simpler problems cannot be quickly resolved, inefficiency may be added to the charge of ineffectiveness. Utility regulators work reasonably well without the presence of water or electricity company chief executives on their panels. The time is fast approaching when the financial services industry will have to demonstrate why it is so very different.

FINANCIAL TIMES
COMPANIES & MARKETS

Tuesday August 31 1993

Hoechst falls 31% on weak demand

By Christopher Parkes in Frankfurt

HOECHST, the big German chemicals group, yesterday blamed a 31 per cent slump in first-half earnings on weak domestic demand and restructuring costs.

The German parent company recorded an unspecified operating loss, while its pre-tax profit fell by almost 50 per cent to DM342m ($202m) the group said yesterday.

Business had continued to be weak in the first two months of the second half, and there were no signs of improvement. Forecasting a "very difficult" six months ahead, it said cost-reduction and rationalisation measures would continue at speed.

Group pre-tax profits of DM781m for the first half were worse than expected by most analysts, but fitted the pattern established last week when rival chemical groups Bayer and BASF reported pre-tax declines of 20 per cent and 50 per cent respectively.

All have been hit by low demand, weak prices, the effects of health service spending cuts in Germany, and adverse movements in foreign exchange markets.

Hoechst said that more than a third of its 2.4 per cent sales decline in the first six months to DM22.9bn was due to currency movements and lower prices.

In the US, Hoechst Celanese reported a 6 per cent sales drop to $3.1bn, attributable to lower volumes in pharmaceuticals markets and the effects of last year's sale of its polyethylene business.

In Germany, the company said, its healthcare business was hit by an overall 6 per cent fall in pharmaceutical sales.

Turnover in the European Community, which accounts for almost half annual sales, dropped 10 per cent.

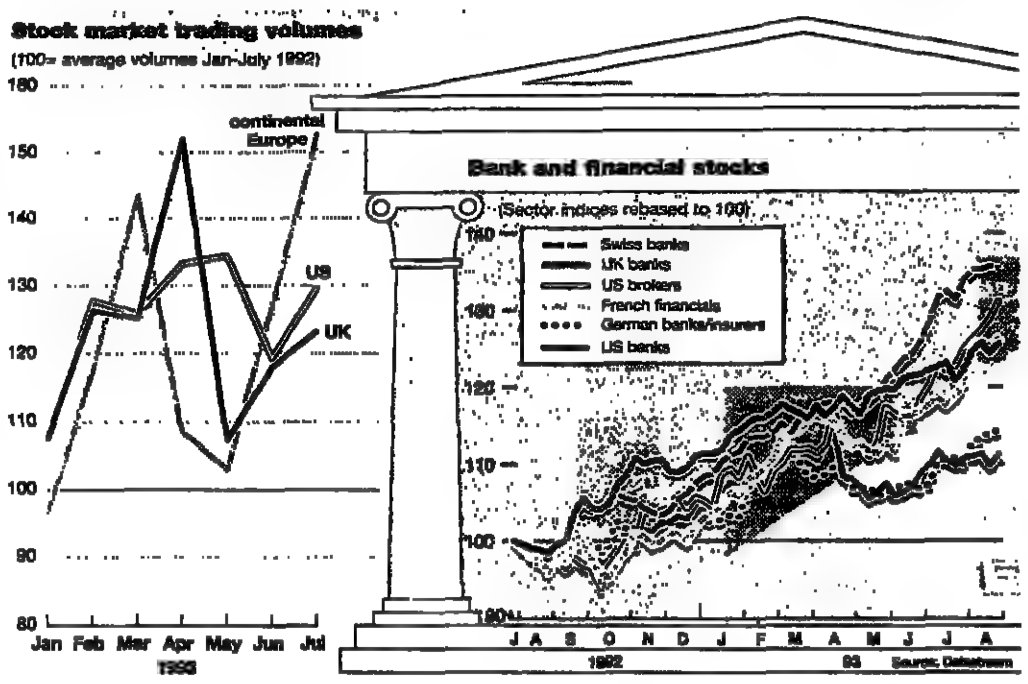
While government and economists claim the domestic recession bottomed out in the second quarter of the year, Hoechst's figures showed the situation worsening. In the three months to the end of June the group earned DM345m pre-tax, down 34 per cent on the comparable period of 1992. It blamed further deterioration in home markets, which had cancelled out an overall improvement in foreign business.

First-quarter earnings of DM436m were 28 per cent lower on the year.

Group-wide restructuring had reduced personnel costs by 2 per cent against a year earlier.

John Gapper finds currencies, bonds and equities combining to give good profits

Securities firms enjoy a year of living easily



This year has been so good for the securities industry that it has tested Mr Mark Houghton-Berry's faith in an old adage. "There may be no such thing as a free lunch, but this one has at least been heavily-subsidised," he says.

Mr Houghton-Berry is head of bond trading at Goldman Sachs in London. For nearly a year, he has watched foreign exchange, equity and bond markets combine to provide international banks and securities houses with one of their most profitable and least risky trading environments for a decade.

The results have become evident in Europe and the US over the past month, as banks have reported large rises in income despite subdued lending business. The US house Morgan Stanley is the latest beneficiary, disclosing record second-quarter profits of $224.2m, driven by a huge leap in trading.

The US securities firms have not been alone. The European universal banks have offset large bad debt provisions and sluggish lending with dealing income. Swiss and German banks have benefited, while among UK banks Barclays made £234m on the £1.3bn in capital in its BZW securities business.

"It is unusual to have equities and bonds going strongly at once. Usually you expect one or other cyclinder to be firing, but we've had both," says Mr David Band, BZW chief executive. While much public attention has been on foreign exchange, securities trading has been at least as strong.

The industry has benefited from a mix of short, medium and long-term trends. The near-collapse of the European exchange rate mechanism created currency volatility; falls in European interest rates led to a bonds and equity rally; and the shift towards lower inflation sparked a "search for yield".

This has created a series of effects that have helped banks and securities houses:

- Re-rating of equities and rising bond prices have all led to large amounts of trading on behalf of customers. "Volumes have been high in continental Europe and the UK, and a lot of US money has flowed this way," says Mr Michael Sargent, head of equities at SG Warburg, the British investment bank.

Mr Band says equities trading has been boosted by switches in asset allocation caused by political uncertainties and the shift in European interest rates. "As long as political paths are not clear, institutions can change their big picture views of the world quite a lot, and quite rapidly," he says.

- The breakdown of currency and interest-rate stability has led to demand for risk management services, as companies seek ways of hedging risks through derivatives. "They are becoming aware that we can sell them insurance," says Mr Michael Davis, a senior vice-president at Chase Manhattan in New York.
- As interest rates have fallen, companies have issued bonds and even equity to re-finance higher interest bank debt. This has been good for the "bulge bracket" Wall Street firms that have picked up higher-margin equity origination business as well as the tighter-margin distribution of bonds.
- Integrated securities houses with the capacity to design and sell over-the counter derivatives have been able to stimulate business though what Mr Band calls "reverse origination". This means designing a product to suit investors, and using swaps to translate it into a form that attracts debt issuers.

This has helped increase debt issues by companies which do not have a pressing need to re-finance, but are attracted by the chance to "lock in" lower interest rates. Derivatives have given companies of all sizes more access to debt markets, so adding to the shift away from traditional bank finance.

- The size of the market for equity and debt has been raised by privatisation of state assets both in west and east Europe. French bank privatisation this autumn follows Warburg's handling of the BT3 share offer, and the growing sale of assets from former communist countries.

These trends have allowed large trading profits, which have been underpinned by the emergence of positive yield curves – higher yields for long-term than short-term bonds – in Europe. A positive yield curve in the US led to banks investing their short-term liabilities in longer-term government bonds.

The shift towards similar conditions in Europe raises the question of how much risk banks and securities houses have taken on through proprietory trading in addition to handling customers' business. Most participants agree that market buoyancy has led to a rise in proprietory trading.

Mr Houghton-Berry says that proprietory trading has been encouraged by the narrowing of margins on client business, and customers wanting to know whether a bank is confident in its own market view. "Firms are increasingly being asked to put their own money where their mouth is," he says.

This in turn means that firms will be exposed to more risk when the exceptional market conditions turn down. The easiest profits have probably passed, since currency volatility is now easing. Yet a longer-term shift to lower interest rates would provide good trading conditions for bonds and equities.

Mr Rod Barrett, an analyst at Goldman Sachs in London, says the market cannot carry on for ever, but may have some way to go yet. "Maybe we will have another year of it, who knows?" he says. "Eventually if rates settle down, the market will adjust to a trading range, and things will get quieter."

A gradual tailing-off of exceptional profits would be the best outcome for the industry. The alternative would be a sharp reversal of inflationary expectations or interest rate trends that would expose firms to losses on their proprietory trading positions in equities, bonds or derivatives.

"The easiest money has been made already. Sooner or later there will be a correction and someone could come unstuck," says Mr Houghton-Berry. Even if he retains the subsidy on his own lunch, others could yet end up paying for theirs.

Five TNT directors quit after split on strategy

By Bruce Jacques in Sydney

TENSIONS at the top of TNT, the Australian transport group, spilled over into a boardroom split yesterday with the abrupt resignation of five directors, including the company's founder and former chief executive, Sir Peter Abeles.

TNT chairman, Mr F. W. Millar, indicated yesterday that the resignations reflected disagreement over strategy for the company which has racked up losses, including write-offs, totalling more than A$260m ($175m) in the latest two reporting years.

Further heavy losses are likely when the company reports for the latest year, ended June.

Mr Millar said TNT's strategy for the past year had been very clear, following agreement by the then board early last financial year.

"It concentrates on improving operating earnings, selling non-core assets and reducing debt," he said.

"It focused management's efforts on our very strong core transport businesses.

"The directors who resigned sought a change in that strategy. That change was not adopted by the board.

"I regret the resignations, but I must say that management can now proceed to implement the continuing strategy with confidence."

Analysts said yesterday that Sir Peter and the other resigning directors were believed to be pushing for a more expansionary strategy, possibly involving a renewed increase in the company's debt levels.

It was heavy debt and rapid expansion that pushed the company close to failure in 1991. Observers further speculated that Sir Peter's continued presence on the board since stepping aside as chief executive last September may have sat uneasily with the new chief executive, Mr David Mortimer.

The other resigning directors are Mr Christopher Sporborg, deputy chairman of Hambros Bank, the UK merchant bank, Mr John Landerer, Mr Evan Cameron and Mr Gilles Kryger.

TNT shares added 5 cents to A$1.27 yesterday.

Mr Millar said the directors would soon consider board replacements.

INSIDE

RTZ near to sale of Nerco assets

RTZ Corporation, the world's biggest mining company, is putting the finishing touches to the sale of assets acquired only in June when it bought Nerco, the US natural resources group. Page 16

New chairman for GPA

Mr Dennis Stevenson, chairman of SRU Group and the Tate Gallery, is expected to take over as chairman of a restructured GPA Group. Page 16

Swiss Re moves to catastrophes

Swiss Reinsurance, the world's second largest reinsurance group, has joined with John Head & Partners, a New York merchant bank specialising in the insurance field, to form Partner Reinsurance, which will specialise in natural catastrophe insurance. Page 17

CBOT clearing head quits

Mr Roger Rutz, president of the Chicago Board of Trade Clearing Corporation has resigned after 10 years at the head of the Chicago exchange's independent clearing organisation. Page 17

Atlas Copco up despite sales fall

Atlas Copco, the Swedish industrial components group, said lower interest rates and exchange rate gains contributed to a 12 per cent rise in first half profits, despite a substantial fall in sales. Page 17

Prospective p/e ratio

The latest prospective p/e ratio for the "500" index for calendar 1993 is 15.6 according to IBES, the consensus estimates service. This compares with an IBES estimated p/e for the "500" of 20.6 for calendar 1992. The official FT calculation of the historic p/e, based on the latest reported earnings, is 20.48 (20.19 last week).

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				**Rises**			
BMW	564.5	+	3	BSN	927	+	15
Daimler-Benz	745.5	+	18.5	Elf Sanofi	998	+	13
Sud Chemie	450	+	14	Fonc Lyonnaise	758	+	36
Falls				**Falls**			
Douglas	558	–	6	Euro RSCG	636	–	17
Linotype-Hell	373	–	32	GTM-Entrepose	529	–	13
Rheinelektra	1100	–	28	SLIC	775	–	26
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Intel	64¼	+	1¼	Crown	495	+	31
Lotus Dev	32½	+	1½	Saitama Seni	518	+	66
Motorola	96⅝	+	1	**Falls**			
Sun Micro	25⅞	+	½	Hitachi Cons	1080	–	80
Falls				Mitsui Wharf	1120	–	60
Ford Motor	51⅛	–	⅛	Nippon Tst Bank	650	–	27
Gen Motors	46¾	–	¾	Tokin	1030	–	60

UK closed. New York prices at 12.30.

An eery calm as new realities of the ERM sink in

Economics Notebook

By Peter Norman

GREAT battles are often followed by a phoney war: and such has been the case in the European exchange rate mechanism.

The dramatic events that ended in the early hours of August 2 in the widening of ERM fluctuation margins to 15 per cent gave way to an eery calm in exchange markets and a deafening silence about the future of the system from policy makers.

But new realities are slowly taking hold. The Bundesbank's decision last Thursday to leave its discount rate unchanged at 6.75 per cent and its action on Friday setting a short-term "repo" rate at 6.9 per cent against 6.8 per cent previously were blows for those who believed that the ERM might be able to count on falling German interest rates for quieter times ahead.

The idea that former "hard core" ERM currencies such as the French franc, Danish krone, Irish punt and Belgian franc might be able to move back within a 2.25 per cent range against the D-Mark is implausible for the time being at least.

The Bundesbank made clear last week that it would use the freedom of the wider bands to strengthen its fight against domestic inflation.

Last week's public flexing of the Bundesbank's muscles merely confirmed the reports that have seeped out of meetings of July 31 and August 1 of a brutal crushing of French monetary aspirations.

France opened the discussions in the European Community's monetary committee on July 31 with demands that the Bundesbank should intervene unconditionally, intramarginally and on its own account to keep the franc in the 2.25 per cent range. France also urged an immediate cut in Germany's repo rate to be followed by reductions in official interest rates as soon as the Bundesbank's decision-making council could meet.

It is unclear whether the French negotiators truly believed the Bundesbank would acquiesce to their demands.

If they did, they were quickly disabused of the idea. Mr Hans Tietmeyer, the Bundesbank vice president and president designate, interrupted Mr Jean-Claude Trichet, the head of the French Treasury and monetary committee chairman, as he enumerated the French proposals with the observation that France had forgotten one item: that Germany abandon the D-Mark and its monetary sovereignty.

Mr Tietmeyer's emergence as the hard man of the Brussels talks lends credence to reports that circulated shortly after the first great ERM crisis of September last year. It was rumoured among highly-placed European monetary officials that Chancellor Helmut Kohl had warned Mr Tietmeyer that he could forget about becoming Bundesbank president if the Franco-German currency link were broken.

The old D-Mark-French franc parity survived successive crises that included the departure of sterling and the Italian lira from the ERM and the devaluations of the Iberian currencies and Irish punt.

However, when the most recent wave of speculation began against the ERM in July, Mr Tietmeyer's promotion to Bundesbank president on October 1 had been confirmed and he was well clear of any possible move by Bonn to curb his room for manoeuvre.

But there were also practical reasons for yielding to market pressures and moving to a 15 per cent ERM fluctuation band for all currencies except the D-Mark and Dutch guilder.

The flow of funds out of the French franc at the end of July was unprecedented. The ERM was protected by exchange controls in most member states when it started operating in March 1979. The past year showed that it was no longer capable of dealing with the pressure of deregulated international currency trading.

In the light of recent circumstances, it is no surprise that policy makers are still somewhat shell-shocked and disinclined to advocate new steps to reform or restore the old system. Conversations last week with monetary officials in Germany and some of Germany's neighbouring countries revealed an almost universal rejection of the idea of moving rapidly back to 2.25 per cent fluctuation margins for the ERM.

Pride and embarrassment are contributing to a do-nothing approach. Last September's crisis spawned two official reports – one from the EC central bank governors' committee and the other from the EC monetary committee - which concluded that the ERM was broadly sound.

Those reports, which look ridiculous today, were the result of lengthly horse trading among officials which eliminated all but the blandest remarks from the final texts. Officials do not want to reopen old wounds with a thoroughgoing examination of recent ERM developments.

But inaction may not be a sustainable policy. The quest for European Monetary Union will not go away despite the past year of crisis in European exchange markets. Even Emu sceptics among continental policy makers are uncomfortable with a monetary free-for-all which could easily subvert the EC's single market.

One central banker last week suggested that the Maastricht convergence criteria for low inflation, government debt and interest rates could be used to guide EC member states back towards the narrow bands in the coming years after which they could move swiftly to Emu.

The financial markets are a more pressing issue. August has been quiet because many speculators went on holiday after banking huge profits from the ERM débâcle.

Market operators return in force this week for the "autumn term". The reluctance of France and Germany's ERM satellites to cut their most important interest rates and stimulate their recession-hit economies in the past weeks will be the subject of as much critical scrutiny as the Bundesbank's determination to maintain its tight monetary policy.

Few of the expectations that followed the most recent ERM crisis have been fulfilled. That means new speculative activity could easily get underway, particularly in the run up to the annual meetings of the International Monetary Fund and World Bank at the end of September.

Thornton to purchase Aetna unit trust arm

By Paul Taylor in London

THORNTON, the UK fund management group owned by Dresdner Bank, plans to acquire Aetna UK's unit trust business in a move which signals further consolidation in the retail investment fund industry.

The group, which is chaired by Lord Peter Walker, the former Cabinet minister, is expected to announce a deal under which it will pay £13m ($19.24m) for Aetna UK's unit trust operations which have £240m under management.

The deal, which is expected to be announced once due diligence investigations are completed, will lift Thornton's total funds under management to above the £1bn mark.

Negotiations are understood to have been completed, however Lord Walker , who was brought in by Dresdner two years ago to restructure and expand the business, said yesterday he could not divulge details until the due-diligence process was complete.

The deal would be Thornton's biggest purchase since it was acquired by Dresdner in 1988 and another important step towards its goal of becoming a leading investment group.

If confirmed, the £13m price tag on the deal represents about 5.4 per cent of funds under management. This compares with the £2.5m paid by Edinburgh Fund Managers when it acquired the 10 unit trusts of Target Life Assurance Company in January - equivalent to just 2.25 per cent of the £110m in unit trust funds under management.

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Sale of RTZ's Nerco assets to fetch $600m

By Kenneth Gooding, Mining Correspondent

RTZ CORPORATION, the world's biggest mining company, is putting the finishing touches to the sale of assets acquired only in June when it bought Nerco, the floundering US natural resources group, and says total proceeds will be about $600m (£405m).

That compares with RTZ's outlay of $470m plus the assumption of $692m debt when it bought Nerco which was 82 per cent owned by PacifiCorp of the US. Also, RTZ's cash outlay was reduced to $245m by a loan from PacifiCorp to be repaid from Nerco contract revenues.

One of the outstanding details RTZ previously has held back concerns the expected proceeds from the sale of the Con gold mine in Canada's North West Territories. However, it now says it expects this will bring at least $25m.

When RTZ first announced in February that it was negotiating to buy Nerco it made clear that it wanted only Nerco's coal operations in the Powder River Basin in Montana and Wyoming.

Morgan Stanley, the investment bank, was retained to offload Nerco's oil and gas interests and definitive agreements for their sale to two US energy groups, Western Gas Resources and Louisiana Land and Exploration Company for a total of $510m were announced in July.

Even before that, arrangements had been made to sell Nerco's gold and silver mines – which Nerco had previously decided to put on the market.

Minorco, the Luxembourg-quoted overseas investment arm of the Anglo American Corporation of South Africa, is paying $21m cash for Nerco's Pikes Peak Mining Company which owns 80 per cent of the Cripple Creek mine in Colorado. And Kinross Gold, a US group, is paying $16.8m cash for the DeLamar gold-silver mine in south-west Idaho and the Candelaria silver mine in western Nevada.

RTZ says negotiations are in progress about the sale of the Con gold mine to Red Lion Management, a private Vancouver-based conglomerate controlled by Mr Walter Berukoff. Red Lion has arranged to sell on the Con mine to Miramar Mining, another Vancouver company. Red Lion says it exercised its option to buy the Con on August 15 and has 60 days from that time to complete the acquisition.

RTZ also expects to raise £900m from the sale of its Pillar industrial division, mainly to MB-Caradon, which, with the Nerco disposals, will reduced the group's gearing to 14 per cent compared with the 63 per cent to which it briefly rose after the Nerco acquisition.

Pressure to switch from appliances

Michael Smith looks at allegations that power companies subsidise their retail arms

COMPANIES in any other industrial sector would have been tempted to call it a day.

Year after year UK electricity companies and their pre-privatisation predecessors have struggled to make significant profits on their retailing operations, and some have recorded losses. Yet still most of them persevere.

Now their competitors, including Dixons and Kingfisher, are trying to force a rethink. They say the retail results of the regional electricity companies and the Scottish power companies have been exaggerated and have demanded an investigation.

At their prompting, Offer, the electricity industry regulator and the Office of Fair Trading are looking at whether power companies cross subsidise their retail operations from other businesses and obstruct fair trade.

If the inquiries confirm this is the case, more electricity companies may follow the lead of London Electricity and South Wales Electricity which have ended or are ending their direct involvement in retailing.

Whatever the profitability, power company retailing is big business. With more than 1,100 shops, electricity groups collectively own the second largest group of electrical goods outlets in the UK after Dixons, which also owns the Currys chain. Their market share is about 13 per cent.

Such a presence is not common internationally. In neither France nor the US do power distributors feel the need to sell goods in high street shops.

The retailing tradition in the UK stems in part from an industry culture which has promoted increases in electricity volume sales as the main aim of the power industry.

"The logic is that the more appliances are sold, the more electricity volumes will rise," says one power company executive.

Retailing has also grown alongside customer service facilities which customers use to make complaints and pay their bills. Almost every power company shop in the UK has a services counter, and they are highly valued by customers.

That is one source of complaint from rival retailers. They believe that in many cases the customer services units do not contribute a fair share of the rent of the showroom they occupy.

More serious, they say, are the cross subsidies from the recs' main businesses to their retailing arms. "The problem is that many shops are not being charged fully for the services they use," says one rival company executive.

"Rents are more realistic than they were in the late 1980s when we estimate the regional boards (electricity companies predecessors before privatisation) were charged a third of the market rate.

"But most recs are still not charging their retail operations fully, if at all, for the capital used in special promotions. That is why their shops can offer so much interest free credit."

Not so, say the regional companies. Seeboard is typical in its response. "We negotiate with electrical manufacturers for supporting promotions just like any other retailer," says Mr John Weight, retailing head. "One hundred per cent of costs associated with Seeboard's business are charged to the business."

If the recs are robust in their defence of the way they apportion costs for their shops, few are able to declare retail profits with pride. Norweb, serving the north west of England, is generally considered the most impressive retailer, and last year made operating profits of £6m from the business, on turnover of £139m, against operating profits in the company as a whole of £155m. It is planning significant expansion from its 88 stores.

Other companies are less bullish. Most declared operating profits for last year on retailing, in contrast to the previous year when most recorded losses. But the amounts were small – typical examples were East Midlands' £200,000 and Manweb's £500,000 – and some lost money, including Sweb which declared losses of £1.9m.

In addition, several companies made significant provisions for restructuring which wiped out any profits.

So why persist? One answer is that the companies have taken action aimed at significantly improving retailing performance.

Since the break-up of national collective bargaining last year, most power companies have negotiated deals with retailing staff which either freeze or reduce wages.

Several companies have also merged their retailing business with other recs and are seeking to improve service and transform the dowdy image of the rec stores by hiring specialist retailers. The new alliances include East Midlands and Yorkshire in one unit and Eastern, Southern and Midlands in another.

Another factor in keeping stores open is the fear of customer reaction to closure plans. "If we were starting again we would not go into retailing but there is more work in closing one shop than there is in re-organising our entire company," one power company chief executive says.

He adds: "Closures get the chambers of commerce and local business up in arms. We closed one branch four years ago and we are still getting petitions.

"There is also the complication that you still have to provide some kind of a high street presence for people who want to pay bills. We do not have the direct debit culture of the US."

For these reasons, most recs believe that the decisions of Offer and the OFT will make only marginal difference to the number of high street stores.

They also point out that if cross subsidisation was found and the regulatory authorities order change, the effect on the overall businesses of each company would be minimal since it would simply transfer profitability from one business arm to another.

Competitors are unconvinced. According to one: "If the power company businesses become as transparent as they should be, shareholders will be able to see what is happening and the pressure to get out of retailing will intensify."

Allders and BAA deal will spread risk more equally

By Maggie Urry

ALLDERS International, the tax and duty free retailer which is part of the Allders Group, has signed a deal with BAA covering all its shops in BAA's UK airports. The contract runs until 1999 and replaces individual contracts for each store, some of which were due to run out this year.

The new agreement also changes the way in which each side makes profits from retailing, sharing risks more equally between them. It will give Allders, which is hoping to float in the next few months, a more stable flow of profits from its BAA shops. BAA said that as well as long-term security it would enable the two sides to work together on new ideas while sharing the risk.

About a quarter of Allders' turnover is being secured by the deal with BAA. Its BAA shops had sales of £161.1m in the year to March 1993, while Allders International's turnover was £296.5m in its financial year to September 1992. Allders other activity, department stores, had sales of £259.1m in that period.

Usually airport shops are run under five-year contracts at the end of which they are put out to bidders. Allders 1992 profits were adversely affected by the loss of a large contract to run a shop at Sydney airport.

Mr Harvey Lipsith, chief executive of Allders, said "there is always a bit of nervousness about contracts. This deal allows us to target other geographical areas without covering our backs all the time."

He said the new system of payment "should benefit both parties and make it much easier to predict profitability." Until now Allders has been paying BAA a rent based on turnover with a guaranteed minimum. Now BAA will pay Allders a management fee, more than covering Allders International's costs. A profit target will be set, and profits above that will be split between the two.

Mr Lipsith said this shifted the balance of risk away from Allders International, and gave it a greater incentive to drive the business for growth.

BAA said it had struck a similar deal with Forte, the hotels and catering group, which had been operating since January with benefits to both sides' profits.

BAA's strategy is to expand the space in its airports devoted to shops over the next three years. Tax and duty free shops are central to this plan, and Sir John Egan, chairman, said they provided "an important source of revenue to BAA" as well as offering customers "choice and value".

Allders International is the largest retailer in BAA's airports.

Dennis Stevenson to chair GPA

By Paul Taylor

MR DENNIS Stevenson, chairman of SRU Group and the Tate Gallery, is expected to take over as chairman of a restructured GPA Group following the signing of its rescue deal with GE Capital, the financial services arm of General Electric of the US.

Mr Stevenson, who is also a member of the Takeover Panel and a non-executive director of Pearson, has been invited to succeed Mr Tony Ryan and is expected to accept the appointment.

Under the terms of the rescue deal GPA's $5.2bn (£3.46bn) borrowings are being separated from its assets and a new company, GE Capital Aviation Management, is being set up. GECAM will be responsible for the combined leasing business of GPA and GE's subsidiary, Polaris Aircraft leasing, including the day-to-day management of GPA's 470 aircraft.

Mr Ryan, GPA's founder, is expected to be appointed executive chairman of the new company working with a chief executive appointed by GE.

Another two non-executive directors are to be announced soon, replacing Lord Lawson, former chancellor, Mr Garret FitzGerald, former Irish Prime Minister, and Sir John Harvey-Jones, former ICI chairman.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Wolseley (UK)	Erb Lumber (US)	Building materials	£51.5m	Resumes acquisition programme
Hasbro (US)	Unit of Virgin (UK)	Computer games	£16.8m	Taking interactive stake
Bass (UK)/INN Realty Hotel Ventures (India)	Joint Venture	Hotels	£10.8m	Franchise venture
Dresdner Bank (Germany)/ BNP (France)	BNP-Dresdner Bank Rossiya (JV)	Banking	£6.7m	Joint bank licence won
Novo Nordisk (Denmark)	Anergen (US)	Pharmaceuticals	£5.4m	Taking 17-1/2% stake
McKechnie (UK)	Phipps International (Australia)	Metal components	£5.1m	Buy via local arm
Hiram Walker (UK)/ Jagatjit Industries (India)	JV	Drinks	£2.2m	Indian liberalisation continues
Silicon General (US)	Unit of Peek (UK)	Data Systems	£1m	Peek sells Navstar remnants
InterEurope Technology (UK)	Telub Inforum Services (Sweden)	Business services	£0.4m	Indirect Celsius
Philip Morris (US)/China National Tobacco Corp (China)	JV	Cigarettes	n/a	Manufacturing move

Exchange rate gains help Atlas Copco climb 12%

By Christopher Brown-Humes in Stockholm

ATLAS Copco, the Swedish industrial components group, said lower interest rates and exchange rate gains contributed to a 12 per cent rise in first-half profits, despite a substantial fall in sales and orders.

Profits after financial items climbed to SKr661m ($449m) from SKr590m. The favourable interest rate trend produced SKr21m in net interest income, compared with an outlay of SKr87m in the same period of 1992. Exchange rate gains increased to SKr24m from SKr10m.

The group's underlying business was flattered by the depreciation of the Swedish krona, which lifted sales by 13 per cent to SKr8.93bn from SKr7.87bn and orders by 9 per cent to SKr9.34bn.

Sales were sharply lower in volume terms, which pushed operating income after depreciation down 8 per cent to SKr604m.

The group said improved sales in the US, south-east Asia, the Middle East and Australia failed to compensate for weak demand in most European countries. However, second-quarter operating income at SKr319m was SKr34m higher than in the first three months.

Orders were also down, particularly in Europe, which only accounted for 54 per cent of orders in the latest six months, compared with 61 per cent a year ago. Orders rose in North America, Africa, the Middle East, Asia and Australia.

The group's industrial technique division lifted operating profits to SKr125m from SKr88m due to rationalisation while construction and mining technique profits were unchanged at SKr84m. Profits within the compressor technique division slumped to SKr457m from SKr548m.

Mr Michael Treschow, chief executive, said he expects the weak demand trend in Europe to persist, but he still forecasts 1993 profits in excess of the SKr1bn level reached last year.

Linotype plunges into the red

By Christopher Parkes in Frankfurt

SHARES in Linotype-Hell, the German print technology group, tumbled 8 per cent yesterday after an alarming half-year report announced a plunge into loss and a drastic overhaul of the business.

The "unexpected" deficit of DM57m ($33.7m) following a first-half profit of DM16m last time, had "cast a shadow over the whole year", the company said.

The company's shares dropped DM33 in Frankfurt to close at DM377. Group sales were down 3 per cent to DM471m.

Aiming to return to the black by 1994, Linotype plans to cut its international workforce by about 15 per cent, reduce its product range, and reorganise management and production structures.

The report hinted at possible domestic capacity closures with a statement that efforts to reduce manufacturing costs would be actively pursued, especially to tackle problems associated with production within Germany.

While there had been no sign of problems in the first quarter, the company said, its customers were now complaining of falling advertising revenues and profits.

Incoming orders fell 7 per cent, stemming partly from a 17 per cent slump in Germany, although demand in other European markets was down by as much as 50 per cent. Orders from Japan, the third-biggest market after the US and Germany, were down 15 per cent.

Announcing job losses of 500 in Germany and 200 abroad, the company said it might not be able to avoid compulsory redundancies.

President of CBoT clearing body quits

By Laurie Morse in Chicago

MR Roger Rutz, the president of the Chicago Board of Trade Clearing Corporation, has resigned after 10 years at the head of the Chicago exchange's independent clearing organisation.

Mr Rutz, 40, cited personal reasons for his departure. Mr William Feldman, the Clearing Corporation's chairman, named Ms Denise Hagerty as interim chief executive while an international search is conducted for Mr Rutz's replacement.

Ms Hagerty, presently chief operating officer, joined the Clearing Corporation in January after 12 years managing clearing operations for a prominent Chicago brokerage firm.

Mr Rutz's departure comes at a critical time for the Chicago Board of Trade. The Clearing Corporation guarantees trades for the exchange, and maintains its top quality credit rating. A year ago, the Chicago Board of Trade and the Chicago Mercantile Exchange entered exploratory talks to merge their clearing operations.

Mr Patrick Arbor, chairman of the CBoT, said Mr Rutz's departure should not affect those discussions.

"The board of directors of the Clearing Corporation are fully committed to unified clearing," Mr Arbor said. "They will choose a successor [to Mr Rutz] with that goal in mind."

The new Clearing Corporation president will have to contend with the professional differences that have impeded progress in those talks, industry sources said.

Swiss Re joins US bank in venture

By Ian Rodger in Zurich

SWISS Reinsurance, the world's second largest reinsurance group, is following the growing trend of creating companies which specialise in natural catastrophe insurance.

The group has joined John Head & Partners, a New York merchant bank specialised in the insurance field, to form Partner Reinsurance.

Swiss Re will put $100m into the venture, which will be based in Bermuda, John Head $25m, and other founder institutional investors $130m.

Partner Reinsurance then plans to raise $500m from the US, European and Japanese equity markets in an initial public offering as early as October.

The move follows a series of similar ventures created by leading reinsurers in recent months. The idea is to respond the soaring demand for natural catastrophe insurance following the sharp increase in damage caused by earthquakes and hurricanes around the world in recent years.

Paradoxically, while soaring insurance claims have hurt all reinsurers in the short term, they have also led to a fundamental improvement in trading conditions by shaking out weaker competitors.

As a result, the US capital market has become more enthusiastic about insurance securities, making it possible for ventures like the new Partner Re to raise equity.

Swiss Re said the new venture would differ from its rivals in that it would concentrate more on markets outside of the US.

"Our wide experience in other parts of the world will be of great value," Mr Walter Kielholz, a Swiss Re director said.

Partner also differed from others in that Swiss Re would not control it. Its stake, initially 13 per cent, would not exceed 20 per cent. Swiss Re said it deliberately sought to maximise outside capital. "Our aim is to generate as much new capacity as possible," Mr Kielholz said.

Also, Swiss Re itself did not want to raise its exposure to the natural catastrophe market.

The public share issue, of 66 per cent of the initial share capital, is being arranged by Smith Barney and Morgan Stanley International.

Shimadzu in Allied-Signal link

By Michiyo Nakamoto in Tokyo

SHIMADZU, a leading Japanese precision equipment maker, and Allied-Signal of the US have agreed a wide-ranging partnership for the joint development and production of jet engine parts. The Japanese group said the deal might lead eventually to an equity relationship between the two companies.

The bilateral accord calls for Shimadzu and the aerospace division of Allied-Signal to adopt a risk-revenue sharing system in the tie-up whereby profits are split between the two companies according to the respective share of funds injected into the product development of particular projects.

It follows a deal made last October for Shimadzu to supply engine gearboxes to Allied-Signal, which is headed by Mr Lawrence Bossidy. The Japanese company will start shipping gearboxes to Allied-Signal next month.

Lawrence Bossidy: adopting risk-revenue sharing system

The two will also co-operate in developing market opportunities in China and other Asian countries, which are expected to be growing markets. Furthermore, they are considering taking equity stakes in each other or setting up a joint venture company.

The latest agreement between the two companies reflects the growing pressures aerospace groups are experiencing in the post-cold war environment. The worldwide economic slump is also dampening demand from commercial customers and the deal between the two groups is an example of the restructuring that is likely to spread in the aerospace industry.

Shimadzu, which has supplied components mainly to Japan's defence forces, is facing a slowdown in business for its aircraft equipment.

The two companies will set up respective teams to discuss specific projects in which they might be able to co-operate in the autumn.

Price fixed for Japanese rail offering

By Emiko Terazono in Tokyo

THE PRICE at which shares in East Japan Railway, one of seven regional railway companies created in 1987 by the break-up of the national system, are to be offered for sale was yesterday fixed at Y380,000 ($3,656) a share.

JR East, which will be listed on the Tokyo stock exchange in October, will be the first state flotation since Nippon Telegraph and Telephone, the 65.7 per cent government-owned telecommunications giant, went public in 1987.

The flotation, initially scheduled for last year, was postponed as a result of stock market weakness. Half of JR East's 4m shares, with a face value of Y50,000, will be sold in the first tranche.

The success of JR East's listing is seen in Tokyo as crucial for other semi-privatised companies, such as Japan Tobacco, and the remaining six railway groups.

The price was based on the auction of 600,000 shares last week, where the weighted average of successful bids came to Y379,808. The accepted bids ranged from Y352,000 to Y623,000.

Over 17,000 bids were placed for the auction, with 3,993 successful bids, including 52 from foreign investors. The 10 largest buyers were all major financial institutions led by Fuji Bank with 30,000 shares and Long Term Credit Bank with 21,500 shares.

Asbestos claims hit US insurers

By Frank McGurty in New York

THIRD-QUARTER results of two US insurance groups, Chubb and CNA Financial Corp, will suffer as a result of an agreement on settling certain claims related to asbestos products manufactured by the Fibreboard Corp.

As a result of the accord, Chubb yesterday warned that it would post a loss in the third quarter after taking an after-tax charge of $358m relating to the settlement. However, the company expects to report a net profit for the first nine months of 1993 and for the full year.

The expected quarterly loss, which works through at $3.95 a share, would follow the company's announcement of second-quarter net income of $168.5m or $1.89 a share. For the first half, Chubb posted net income of $294.3m, or $3.31.

CNA Financial, which is 83 per cent-owned by Loews Corporation, said it would take a $325m after-tax charge, or $5.26 a share, in the third quarter because of asbestos-related claims.

Loews, in turn, warned that the agreement would reduce its third-quarter earnings by about $270m, or $4.17. In last year's third quarter, Loews, which also owns Lorillard, which markets tobacco products, posted net income of $128.6m, or $1.98. The figure included a $109.7m charge relating to claims at CNA from damage caused by Hurricane Andrew.

Chubb said it was boosting its reserves for Fibreboard claims by $675m, to $1.25bn.

L'Air Liquide in gas deal with Kemira

By Christopher Brown-Humes

KEMIRA, the Finnish state-owned chemicals group, is linking with L'Air Liquide of France to produce and market industrial gases in Finland.

The two companies are setting up a joint venture, Polargas, which will be 70 per cent owned by the French group.

The venture will take over Kemira's industrial gas production and distribution facilities in Oulu and Raahe on the west coast of Finland. The operations mainly produce oxygen, nitrogen and argon and have a FM100m ($17.1m) annual turnover.

L'Air Liquide will contribute know-how and make a payment of unspecified size for its holding in the new company.

Kemira said it was optimistic about growth possibilities for industrial gases, but did not want to expand its operations in this area on its own.

Mortgage-backed issue from Bank of Ireland

By Tracy Corrigan

TWO important deals launched on Friday in the growing sterling asset-backed bond market may herald a quickening of the pace of securitisation in the UK. Securitisation allows companies to remove assets from their balance sheets, by repackaging and selling them as bonds.

Two landmark deals – a mortgage securitisation by National Westminster Bank and a loan securitisation by Barclays Bank – are widely expected to emerge in the next few months.

Last Friday, Bank of Ireland Home Mortgages, the Bank of Ireland's UK mortgage subsidiary, returned to the sterling mortgage-backed securities market after a five-year absence in order to fund its expanding £2.6bn mortgage book.

The Bank of Ireland's third public mortgage-backed offering consisted of a £250m issue of floating-rate notes issued through a special purpose company, Residential Property Securities No. 3, and arranged by NatWest Capital Markets. It had previously completed two private placements.

The Bank of Ireland bought Bank America Finance's mortgage business in 1987.

Mr Tom O'Neill, finance director at Bank of Ireland Mortgages, described the securitisation as "a very attractive way of financing our business," and said the bank would continue to tap the market.

Also in the sterling market, Anglo Leasing, a subsidiary of the Summit Group, a UK leasing company, launched the first issue in the UK backed solely by lease receivables. Lease receivables have been used to back commercial paper. The £165m issue of FRNs, arranged by Kleinwort Benson, is backed by leases on business equipment such as photocopiers, vending machines and computers.

Japanese trade house to set up Beijing offshoot

ITOCHU, the Japanese trading house, is expected to establish a wholly-owned subsidiary next month in China, which, in theory, will allow the company to compete on equal terms with Chinese companies, writes Robert Thomson in Tokyo.

The trading house, which will be the first Japanese company with such a subsidiary, expects government approval in coming weeks, and will use the new company to oversee its 50 joint ventures in China.

The new subsidiary, yet to be named, will have an initial capital of $10m and be based in Beijing.

NEWS DIGEST

Berendsen turns in first-half rise to DKr269m

SOPHUS Berendsen, majority shareholder in Rentokil, the UK environmental and property services group, reports an increase in first-half net profits to DKr269m ($39m) from DKr250m a year earlier, writes Hilary Barnes in Copenhagen.

The results were adversely affected by the strength of the krone. Group sales, of which about 60 per cent are accounted for by Rentokil, advanced 8.5 per cent to DKr4.20bn.

Berendsen said that full-year results will be significantly influenced by two important investments earlier this year, Rentokil's acquisition of the Securigard Group and the Berendsen industrial division's acquisition of the UK's Lucas Fluid Power Group.

Metal prices hurt MIM Holdings

LOW world metal prices caused MIM Holdings, the Australian mining group, to dip into the red in the final quarter, but the group reported only a marginal decline in operating earnings for the full year to the end of June, writes Bruce Jacques in Sydney.

Operating earnings fell marginally from A$87m to A$85.1m (US$56.8m) on an 8 per cent improvement in revenue to A$2.02bn. The dividend is being held at 5 cents a share.

Abnormal items including large divestments, write-offs and currency fluctuations, had a substantial influence on earnings available to shareholders. This caused bottom line earnings to fall 30.4 per cent to A$74.0m.

Comalco lifts interim pay-out

COMALCO, the Australian integrated aluminium producer, has raised its interim dividend from 2 cents to 3 cents a share after overcoming lower prices to record a marginal earnings increase in the six months ended June.

Operating profit rose from A$15m to A$15.7m (US$10.5m) on a 10.4 per cent revenue lift to A$1.09bn.

But the result was transformed by abnormal items and a superannuation fund adjustment which boosted earnings available to shareholders from A$8.5m to A$50.3m.

Directors said the average London Metal Exchange three month price for aluminium was US$1,182 per tonne for the reporting period, compared with an average of US$1,296 per tonne previously.

"This first-alf average price is the lowest for any half-year period since the LME high grade three month contract began in June, 1987," they said.

SA Brewing ahead

SA BREWING, the diversified Australian brewer, reports a 6.6 per cent increase in net earnings to A$120.1m (US$80.1m) for the June year. Sales rose 13.3 per cent to A$2.29bn, and the dividend is being stepped up from 15.5 cents to 15.75 cents a share.

The packaging operations were the only division to increase earnings, moving up from A$97.4m to A$104.4m. The contribution from the beverage and food division eased from A$75.7m to A$74.9m and the appliances' result slipped from A$63.6m to A$58.2m.

US MONEY AND CREDIT

Bonds' strength unnerves analysts

NOW that 30-year bond yields, currently at 6.1 per cent and falling, look as if they will breeze through the 6 per cent barrier, some Wall Street analysts are beginning to have second thoughts about the robustness of the market's rally.

Donaldson, Lufkin & Jenrette is one broking house clearly unnerved by the bond market's strength. In its latest weekly report, it warned: "We regard the long end of the fixed income market as severely overbought and vulnerable to a 35-45 basis point intermediate-term back-up in rates." It predicted a sharp upturn in yields would follow on the heels of this week's economic data.

The people at Bear Stearns have similar reservations, although they believe any upturn in bond yields is probably a bit further down the road. In a report entitled "Bond Overshoot," Bear Stearns economists wrote: "It is our judgment that people are underestimating the US economy at present... We believe that the pace of growth in the second half of this year will be stronger than many people think. Based on the fundamentals, the bond market will face a correction later in the year."

Mr Robert Brusca, the chief economist of Nikko Securities who has long been unconvinced by the bond market's rally, took a similar track. The gist of his argument is that inflationary pressures are lurking in the economy, ready to reappear, and that market expectations of how effective President Clinton's budget will be in reducing the deficit are overly optimistic.

He concluded, darkly: "Bonds are bombs ... tic ... tic ... tic."

Some of these remarks must have been prompted by last week's bond market performance, which was nothing short of remarkable. It was a week when no important economic data was published, when nothing new about the direction of monetary policy was said, and when many participants were on vacation.

Yet it was a week when the 30-year bond gained one and a quarter points, and yields dropped from 6.32 per cent to 6.1 per cent. All of this was achieved without any particular support from fundamentals, or even the technicals – it seemed that the momentum of the market's summer rally was the only thing keeping prices moving higher.

At least this week dealers and investors should have something substantial to get their teeth into, in the form of a fresh supply of economic data. If bond yields are to drop quickly under 6 per cent, the economic news will have to be consistently bearish.

Today's release of preliminary second-quarter real GDP figures should cause a stir. Two weeks ago, the government announced an unexpectedly wide June trade deficit, since when economists have been predicting that the real GDP numbers would revised downward to reflect the drop in export sales.

Consequently, analysts expect real GDP growth to come in between 0.8 per cent and 1.0 per cent, down from the original estimate of 1.6 per cent. These revisions are already priced into bonds, but any figure under 0.5 per cent would probably prompt heavy buying, and could well send the 30-year yield below 6 per cent for the first time.

Tomorrow's purchasing managers' index for August will also be closely watched, and the consensus of forecasts shows the NAPM index of manufacturing activity edging above 50 per cent for the first time since May. Thursday brings the July factory orders data, which are expected to show a sizeable decline on the heels of a drop in July durable goods orders.

Finally, the most important number of all arrives on Friday. The August employment data will provide the latest look at the still-depressed labour market. Economists, however, anticipate broad improvement in the data, with non-farm payrolls rising between 85,000 and 200,000. An increase in the civilian labour force, however, will probably have pushed the national unemployment rate up from 6.8 per cent in July to 6.9 per cent or 7.0 per cent.

Patrick Harverson

EUROPEAN HIGH-YIELD BONDS

Foreign demand underpins rally

EUROPE's high-yielding bond markets may soon no longer deserve their name. This month, 10-year bond yields in Spain, Italy and Portugal all fell below 10 per cent, the most important psychological barrier for investors.

It is the first time in their short history that Spanish and Portuguese markets have reached these levels.

The strong rally in the last month was achieved despite the fact that the Bundesbank did not cut German interest rates, confounding many traders' expectations.

The breaching of the 10 per cent barrier represents a remarkable shift of sentiment within a short space of time – as recently as last October Spanish 10-year yields were above 14 per cent.

While there is nothing fundamental to stop further appreciation of the Italian and Spanish markets, analysts are becoming rather edgy about the prospects for a correction. However, the recovery following the lack of action by the Bundesbank on Thursday, despite an initial sell-off by traders, reflects that underlying demand from investors, including the retail end of the market, remains firm.

Mr Michael Burke, bond economist at Citibank, favours Italy over Spain. "Italy has much better inflation prospects," he argues, with wage growth of 2.6 per cent compared with 7.5 per cent in Spain.

"Spain has some serious structural problems which the minority government is ill-placed to address," he says. He cites rigidities in the labour market which have allowed wage inflation to advance unimpeded.

Spain is also faced with a burgeoning budget deficit, fuelled by regional government spending, which is difficult to curb without offending nationalist parties.

The deficit could well be as much as 7 per cent of Spain's GDP by the end of the year, from just 4.4 per cent in 1992, according to analysts.

Of course, the size of Spain's debt is dwarfed by Italy's debt mountain. But the market is quite aware of the structural problems facing Italy, and it could be argued that these are well discounted.

"I still don't feel comfortable with the budget situation and the progress on electoral reform," said Mr Steve Major, a bond analyst at Crédit Lyonnais.

Also he argues that the 120 basis point rally in 10-year bond yields in the last month has been overdone considering that three-month rates have fallen only 25 basis points. "The long bonds have discounted a lot of easing," he said.

Mr Burke at Citibank takes a more positive view of the Italian picture. While Italy's debt burden remains a serious concern, he believes there is room for some improvement, since a large portion of Italy's obligations are in the form of interest payments. However, since more than 80 per cent of Italy's public sector deficit is in the form of short-term bills, "much of the problem is easily curable with lower short-term interest rates," Mr Burke argues.

Whatever the logic of the rally, it has undoubtedly been fuelled by foreign investors, in search of higher yielding paper, who have rarely been such active buyers of Italy and Spain. According to statistics, foreign investors now hold around a third of the Spanish market. It remains to be seen whether or not they will soon decide that the yields on offer are no longer high enough to justify the extra risk of buying more volatile markets.

Tracy Corrigan

UK GILTS

Sun still shines on the long end

JUST when you think it is time to get out of the water, the sun comes out again.

So it has been with the UK government bond market. The rally that had extended for the past three months taking long-dated maturities to record highs was, by the early part of last week, beginning to look slightly waterlogged.

Dealers at some UK investment houses said overseas investors, particularly from the Middle East, were pocketing profits. Overseas buyers have been one of the mainstays of the rally with gilts seemingly offering a way into a strengthening pound plus an economy growing with low inflation.

Thus it had begun to look comparatively chilly for long gilts even before the German Bundesbank's decision to leave its discount rate unchanged at 6.75 per cent.

Economists had expected a cut of at least a quarter percentage point which would have given an opportunity for hard-pressed European economies, such as France, Belgium and Denmark, to cut rates.

In the event UK gilts were sidelined after the news but sterling jumped sharply and the FT-SE 100 index hit record highs. Then, on Friday, the sun came out again with a 1.25 point surge in 10-year gilts and heavier gains at the ultra-long end of the curve.

Part of those gains represented position taking before the long bank holiday weekend but there was also a view that if ERM interest rate cuts are being pushed further back a UK cut is also less likely. The receding prospects for monetary easing encouraged investors to move assets towards the long end of the yield curve, which reflects the prospects for low inflation.

The question that continues to hover over the long-dated end of the curve is whether gilts are nearing the end of their bull run. UK institutional investors, used to years of domestic boom-bust economics, have been particularly wary of the argument that low inflation is here to stay.

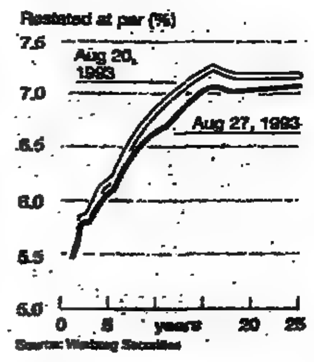
However, Mr George Magnus, of SG Warburg, believes that long yields have further to fall and could break through 7 per cent before the end of the year. "We are revising our forecasts for yields of all the long-dated maturities. As people become more accustomed to the idea of low inflation yield curves will continue to flatten," he says.

He views both domestic and global factors as perpetuating the rise and the main four reasons he cites for a continuation of the trend are:

- The subdued outlook for UK inflation
- The possibility of fiscal tightening at the November budget
- A downgrading of Public Sector Borrowing Requirement forecasts
- The generally favourable environment for longer dated bonds.

UK gilts yield

Restated at par (%)



Source: Warburg Securities

Ms Jane Sargent, Hoare Govett's head of fixed interest research, agrees that any weakness in the gilts market will be short-lived and cites the strong demand for BT's £500m Eurosterling issue last week as underlining the seemingly insatiable appetite of overseas investors for sterling bonds.

The Bank of England took advantage of Friday's gilts surge to announce £800m worth of taps consisting of £400m of 9 per cent conversion stock maturing in 2000 and £400m of 8 per cent Treasury stock expiring in 2009.

Even Mr John Shepperd, of Yamaichi, who takes a pessimistic view on the future of the UK government bond market, acknowledged that the overseas buyers were back in force on Friday. However, he says their impact was exaggerated because dealers were unwilling to upset their books before the weekend and consequently prices were squeezed higher than the buying would normally have taken them.

Much depends on whether Mr Kenneth Clarke, the chancellor of the exchequer, is prepared to cut base rates again within the next few months. Whatever the outcome Mr Shepperd feels that the sunshine is unlikely to continue and long yields have fallen as far as they can. "A base rate cut has already been discounted," he says. "We are at the bottom of the inflationary cycle and although PSBR pressures have been reduced, that reduction has already been taken on board.

"Also the government won't tighten fiscal policy and we are in a fairly robust recovery which is bound to have some impact on the inflation rate."

Yamaichi has lowered its current long yield forecast to take into account what it sees as the short-term move to long gilts following Germany's discount rate stance. However, the revised figure is 7.7 per cent, some 40 basis points higher than current levels.

Over the week, 10-year gilts saw a fall in yields of about 13 basis points to 6.84 per cent. Further out, the 8¾ per cent Treasury bond maturing in 2017 was quoted at 116$\frac{3}{32}$, yielding 7.3 per cent compared with 115¾. Index-linked gilts also rose sharply.

Peter John

FT/ISMA INTERNATIONAL BOND SERVICE

[illegible]

Closing prices on August 27

INTERNATIONAL BONDS

Brightening prospects for Nordic borrowers

JUDGING by the recent flurry of international bond issues from Finland and Sweden, a significant thaw is under way in investor sentiment which a few months ago was as frozen as the Baltic Sea in winter.

"If I count the number of foreign investment banks that call me and send me proposals compared to 10 months ago, then, yes, it is clear that attitudes have changed," a senior Stockholm banker remarked last week.

Late last year, when the extent of the losses run up by Nordic banks became clear and the region was wracked by a deep economic and currency crisis, foreign investors turned their backs on what had previously been among the world's best credit risks.

But pledges by the governments of Sweden, Norway and Finland to support their respective banking systems, as well as mounting evidence that the banks are coming off the critical list, has enabled investors to adopt a more balanced view on Nordic borrowers

"I think it is a crucial factor for foreign investors that they see the level of government support behind the banks," says an official at Finland's Okobank, whose $150m issue of floating-rate notes (FRNs) in July marked a turning-point for Nordic credits.

The most obvious indicator of the extent of the rehabilitation of Swedish and Finnish borrowers has been the sharp cut in the margin or "spread" they have to pay over the yield on underlying government paper. Last week, Finland achieved its best pricing in three years when it raised $250m through an offering of three-year Eurobonds priced to yield 28 basis points over underlying US Treasuries. During the financial crisis last year, spreads on Finnish sovereign paper widened to around 90 basis points.

Sweden is now able to raise funds at 10 basis points below the London interbank offered rate (Libor) compared with around 25 basis points over Libor late last year when, like Finland, it had to raise large amounts quickly.

Now that the sovereign borrowers have accomplished a large part of their international funding programmes, there is room in the market again for the banks and the spreads they have to pay have come back down.

Last week Spintab, the Swedish domestic mortgage association owned by Swedbank, raised $250m through an issue of five-year FRNs at an all-in cost of 33 basis points over Libor, less than half the spread on a similar offering launched in February.

Kansallis-Osake-Pankke (KOP), the leading Finnish bank, also tapped the market last week with a $150m issue of perpetual subordinated notes. This would have been virtually impossible several months ago when investors were reluctant to buy even senior Nordic debt.

Mr Jean-François Tapprest, who deals with international funding at KOP, says: "The access to funds has opened totally and the spread which KOP has to pay over Libor for three to five-year maturities has halved."

The rehabilitation of Nordic borrowers is being helped by a hunger among investors for high-yielding assets. Despite the improvement in pricing, Nordic issues still offer a substantial pick-up over the yields on other bonds. In addition, investors are now eager to buy Nordic bank debt in anticipation of an upgrading of their credit ratings.

Their hopes have been fanned by the recent crop of good news from the banking sector. Earlier this month Scandinaviska Enskilda Banken, Sweden's leading bank, said it had returned to profit in the second quarter and had withdrawn its request for state support.

Norway's two biggest banks, Den norske Bank and Christiania Bank, reported a return to profit in the first half. In Finland, KOP and Unitas, the second-largest bank, say they will cut their losses this year.

So far, the two biggest Swedish players, SE Banken and Svenska Handelsbanken, have not moved back into the bond market, concentrating instead on rights issues in order to rebuild their capital.

The only Swedish corporate borrower this year has been Vattenfall, the national power group, which raised $500m through an issue of five-year Eurobonds in May.

Syndicate managers and borrowers alike believe spreads will continue to tighten, but there are two factors which could interrupt this trend. One worry is the huge borrowing requirements of the Swedish and Finnish governments stemming from their budget deficits.

They are spreading their borrowing among different instruments, but there is some concern that non-sovereign borrowers could be crowded out once again, in which case spreads would go back up.

The second is the depth of demand for Nordic issues, despite the improvement in investor sentiment. "Certainly there is a window of opportunity now," says an official at a senior Swedish bank. "But if a lot more banks come out with issues rapidly, the market could become saturated."

Hugh Carnegy and Antonia Sharpe

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Cie Financière de CIC‡	150	Sep.1998	(b)	99.8R	-	-	Merrill Lynch Intl.
Spintab‡	250	Sep.1998	(f)	99.825R	-	-	Kidder Peabody Intl.
Sparekassen Bikuben(g)‡	150	Sep.2000	(g)	98.8R	-	-	Chemical Inv'ment Bank
BankAmerica Corp.‡	100	Sep.1998	(h)	variable	-	-	Kidder Peabody Intl.
Lavoro Bank Overseas(i)‡	50	Sep.1998	(i)	99.36R	-	-	Morgan Stanley Intl.
Bellsouth Telecommunications	300	Sep.2008	6.125	99.88R	6.137	+50 (5¾%-03)	Morgan Stanley Intl.
Republic of Finland	250	Sep.1996	4.5	99.875R	4.548	+26 (6¼%-96)	Swiss Bank Corp.
Credito Italiano(HK Branch)‡	150	Sep.2003	(j)	100R	-	-	C.Italiano/ K.Peabody
Kansallis-Osake-Pankki(k)‡	150	undated	(k)	98.85R	-	-	Salomon Brothers Intl.
Girocredit Bank‡	100	Dec.2003	(l)	100R	-	-	Merrill Lynch Intl.
San Paolo (Nassau Branch)‡	100	Sep.2003	(r)	100	-	-	Swiss Bank Corp.
SCCMT 1993/2 (Class A)(d1)	750	Sep.2003	5.95#	99.88R	5.966	+50 (5¾%-03)	Goldman Sachs Intl.
SCCMT 1993/2 (Class B)(d1)	48	Sep.2003	6.15#	99.601R	6.204	+74 (5¾%-03)	Citibank North America
General Electric Capital Corp.	250	Sep.1998	5	99.935R	5.015	+14 (4¾%-98)	Swiss Bank Corp.
Credito Italiano (HK)(t)‡	100	Sep.2003	(t)	100.35R	-	-	C.Italiano/ K.Peabody
Fujita Corp. USA	50	Sep.1998	(a1)	100R	-	-	Tokai Bank Europe
D-MARKS							
LKB Baden Württemberg Fin.	1bn	Sep.2008	6.5	98.25R	6.688	+36 (6½%-03)	JP Morgan, Frankfurt
LB Schleswig-Holstein	200	Sep.2003	6.625	99.25R	6.730	-	Lehman Bros. Bankhaus
Kasai Kogyo Co.(c)Φ	64	Sep.1997	1.875	100	-	-	Daiwa Europe (Deutsch.)
Tchibo Holding Finance	300	Sep.2003	6.75	102.85	6.358	-	Deutsche Bank
BLfA, Munich‡	150	Sep.2003	(e1)	100	-	-	Trinkaus & Burkhardt
STERLING							
BT	500	Sep.2003	7.125	99.16R	7.248	+18 (8%-03)	Lehman/ SG Warburg
Alliance & Leicester B/S‡	200	Sep.1998	(m)	99.375R	-	-	Samuel Montagu & Co.
Bancomext (Grand Cayman)	75	Sep.2000	8.75	99.225R	8.903	+200 (9%-00)	Samuel Montagu & Co.
Residential Prop.Secs.No.3(y)‡	55	Sep.2025	(y)	100R	-	-	NatWest Capital Markets
Residential Prop.Secs.No.3(z)‡	150	Sep.2025	(z)	100R	-	-	NatWest Capital Markets
Anglo Finance No.1‡	165	Sep.2001	(b1)	99.8R	-	-	Kleinwort Benson
FRENCH FRANCS							
Banque Nationale de Paris	1bn	Sep.2003	6.5	98.576R	6.700	+38 (6¾%-03)	BNP
Crédit National(n)	1bn	May.2003	7.25	104.55R	6.590	+32 (6¾%-03)	CCF
Banque Nationale de Paris(s)	500	Sep.2003	6.5	99.285R	6.600	+38 (6¾%-03)	BNP
YEN							
Lehman Brothers Holding‡	10bn	Feb.1996	(d)	100R	-	-	Lehman Brothers Intl.
Sumitomo Crp. O'seas Capl.(t)	5bn	Dec.1998	4(t)	101.625	-	-	Sanwa International
Euromot‡	4bn	Dec.1998	(u)	100R	-	-	LTCB International
CANADIAN DOLLARS							
City of Stockholm	100	Oct.1998	6.75	99.1R	6.989	+50 (6½%-98)	Hambros Bank
GUILDERS							
ING Bank(e)	200	Sep.2008	7	101.95	6.789	-	ING Bank
Aegon(o)	150	Sep.2003	6.5	99.8	6.528	+35 (p)	Bank van Haften L.
ITALIAN LIRA							
DSL Bank(q)	150bn	Oct.2003	8.9375	100R	8.938	-	Banca di Roma
AUSTRALIAN DOLLARS							
Treasury Corp. of Victoria	100	Sep.2003	7.25	101.25	7.071	-	Hambros Bank
SWEDISH KRONOR							
Vattenfall Treasury	500	Sep.1998	7.375	101.75	6.949	-	SHB, London Branch
ESCUDOS							
Nordic Investment Bank	7.5bn	Sep.1996	9.75	101.375		-	BPI
SWISS FRANCS							
Bayerische Hypobank(a)*Φ	150	Oct.2002	3	100	-	-	Swiss Bank Corp.
Japan Highway Public Corp.	450	Sep.2003	4.5	102.25	4.220	-	IBJ (Schweiz)
LB Schleswig-Holstein(v)*Φ	150	Oct.2001	2.5	100	-	-	Credit Suisse
BIL Finance(Cayman Is.)(w)Φ	132	Sep.2002	3.125	100	-	-	Swiss Bank Corp.
Bank Dutch Municipalities(f1)*	100	Oct.2001	2.25	100	-	-	Credit Suisse
Tokyu Koken*‡	75	Sep.1998	(c1)	101.2	-	-	Nomura Bank (Switz.)

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. *Private placement. ΦWith equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price. a) Denom: SFr50,000 + 300 3-year American style warrants. 4 warrants entitle holder to 1 ordinary Veba share at DM413.66 b) Coupon pays 3-month Libor + 0.25%. c) Denom: DM5,000 + 5 warrants. Exercise price: Y821. FX: 62.69Y/DM. d) Coupon pays 3-month Libor + 0.4%. e) Issue launched on 17/8/93 was increased to Fl600m. f) Coupon pays 6-month Libor + 0.25%. g) Coupon pays 6-month Libor + 1.1% for years 1-4 and + 2.5% thereafter. Callable at par on any coupon payment date from September 1997. h) Coupon pays 3-month Libor + 0.25%. i) Issue launched on 19/8/93 was increased to $200m. Coupon pays 3-month Libor + 0.5%. j) Coupon pays 6-month Libor - 0.1875%, minimum 5.75%, maximum 10%. k) Coupon pays 6-month Libor + 2% for first 5 years and + 3.5% thereafter. Callable at par on any coupon payment date from September 1998. l) Coupon pays 6-month Libor - 0.25%; minimum 5.5%, maximum 8% for first 5 years and 8.5% thereafter. Short last coupon pays 3-month Libor - 0.25%. m) Coupon pays 3-month Libor + 0.0625%. n) Fungible with the outstanding FFr3bn. Plus 12½ days accrued interest. o) Issued on tap until 1/10/93. Minimum amount Fl150m; borrower intends to raise Fl500m. Initial issue price is recorded. p) Spread is over interpolated yield curve. q) Callable at par on any coupon payment date after 2 years. r) Coupon pays 6-month Libor - 0.1875%; minimum 5.4%, maximum 10%. s) Issue launched on 21/8/93 was increased to FFr1.5bn. t) Coupon pays 4% until 2/12/98 and 5.1% thereafter. Short 1st coupon. Callable on 2/12/98 at par. u) Coupon pays 3.55% until 14/12/98 and 3-month Libor flat thereafter. Short 1st coupon. v) Denom: SFr50,000 + 450 warrants. 10 warrants entitle holder to 1 Daimler-Benz share at DM730. Exercise period: 11/10/93 - 16/3/98. FX: 0.8825SFr/DM. w) Borrower: Bank in Liechtenstein. Denom.: SFr5,000 + 25 3-year warrants. 100 warrants entitle holder to 3 BIL participation certs, 1 Julius Baer bearer, 6 SBC bearer, 3 UBS bearer and 1 Credit Suisse bearer at SFr13,672. x) Issue launched on 25/8/93 was increased to $250m. y) Class A1 notes. Coupon pays 3-month Libor + 0.35% until 2001 then average of quotes from market makers. Callable from September 1998 if balance of mortgages is below £25m. Average life 1.33 years. z) Class A2 notes. Coupon pays 3-month Libor + 0.22% until 2001 then average of quotes from market makers. Callable from September 1998 if balance of mortgages is below £25m. Average life 6.35 years. Class B notes of £5m were also issued. a1) Coupon pays 6-month Libor + 0.35%. b1) Amortising notes. Average life: 4.4 years. Coupon pays 3-month Libor + 0.65%. Callable on any interest payment date from September 1998 at par or if principal declines to 10% or less of notes outstanding. c1) Coupon pays 6-month Libor + 0.4%. d1) Global issue. Long 1st coupon. e1) Coupon pays 7.75% fixed annual in first year and 18% - 2 x 6-month Libor thereafter. f1) Denom.: SFr50,000 + 500 2-year warrants. 5 warrants entitle holder to 1 ounce of gold at $380. Note: Yields are calculated on ISMA basis.

RISK AND REWARD

Wreckage of ERM may signal end to era of easy profits

IN THE wake of the widening of the exchange rate mechanism's bands earlier this month, European political leaders - and in particular the French - have talked of getting their own back on the speculators who sabotaged their cherished system. But the politicians may not have to wait very long before they get some revenge.

Over the last year, currency dealers have made substantial profits by taking successful one-way bets on the devaluations of sterling, the Italian lira, and the Iberian currencies. But the latest ERM crisis does not appear to have been a source of unqualified joy for foreign exchange players. Unexpected exchange rate movements in the French franc and Danish krone have trimmed some of the profits of speculators who were selling these currencies.

At the same time, the greater fluctuations now seen in European exchange rates have forced some speculative players to abandon long-standing techniques for making huge profits out of Europe's semi-fixed exchange rate system.

In recent weeks, some dealers in London and New York have talked of how movements in European currencies have taken them by surprise and caused them to give back some of their profits.

The French franc has performed far more strongly against the D-Mark than had been anticipated when the ERM bands were first widened. Instead of the immediate move down to FFr3.60 against the D-Mark that had been expected, the franc bottomed out at FFr3.5300 immediately after the ERM bands were widened.

The franc has been supported by France's policy of slowly reducing interest rates, and analysts think that the French currency will soon be forced to new lows against the D-Mark. But some traders who borrowed francs and sold them near the FFr3.5300 level have closed their positions and taken a loss.

A number of US investment banks have operated funds in recent years which allowed customers to use low interest rate currencies, like the US dollar, to invest in high-yielding ones like the Danish krone and Spanish peseta.

These investments were bound to lead to high returns because there was little chance of a depreciation in the value of the currencies that had been purchased while they were in the narrow bands of the ERM

Using the technique of margin trading, an investment bank could enhance profits by taking positions in these currencies which were up to 10 times the size of the original sum deposited by clients.

But the recent changes in the ERM, and the greater volatility in exchange rates, has made these funds far riskier to operate.

Last week, Bankers Trust, the US investment bank, revealed that it was seeking a vote from investors to liquidate a fund called "The Diversified Currency Management Fund" which had made substantial gains by investing in European currency markets.

Bankers Trust said it was also seeking to change the nature of operations of another fund which had gained from differentials in interest rates. Its investment objectives were now to become more "opportunistic".

Both funds had assets of $640m invested in them by the bank's customers. The funds were used to take leveraged positions up to 10 times that size, and could therefore have been responsible for pushing as much as $6bn through the currency market.

Mr Bill Tazza, managing director at Bankers Trust, said the investment bank had been "pro-active" in its decision, and that the widening of the ERM bands had made this interest rate play more difficult. He said the decision to change the nature of these funds had not been taken against a background of losses.

"There are quite a number of these sorts of fund in the market place," he said, "but the risk/reward ratio of this trade has now changed considerably".

European governments should not take the view that the crisis in the fixed exchange rate system was entirely in the interests of currency speculators.

For some players in this market, the wreckage of the ERM may have signalled the end to an era of easy profits.

James Blitz

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

GERMANY

[illegible]

GERMANY (continued)

[illegible]

ITALY

[illegible]

NETHERLANDS

[illegible]

NETHERLANDS (continued)

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWEDEN (continued)

[illegible]

SWITZERLAND

[illegible]

SOUTH AFRICA

[illegible]

JAPAN

[illegible]

AUSTRALIA

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG

[illegible]

MALAYSIA

[illegible]

SINGAPORE

[illegible]

CANADA

TORONTO

4 pm close August 30

[illegible]

MONTREAL

4 pm close August 30

[illegible]

INDICES

NEW YORK

DOW JONES	Aug 27	Aug 26	Aug 25	Aug 24	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3640.63	3648.18	3652.09	3638.56	3652.09 (25/8)	3241.95 (20/1)	3652.09 (25/8/93)	41.22 (2/7/32)
Home Bonds	108.39	108.43	108.37	108.32	108.43 (26/8)	103.49 (1/1)	108.43 (26/8/93)	54.99 (1/10/81)
Transport	1655.96	1651.42	1654.87	1649.71	1663.03 (16/8)	1453.24 (4/1)	1663.03 (16/4/93)	12.32 (8/7/32)
Utilities	254.09	254.76	254.56	252.40	254.75 (26/8)	217.14 (5/1)	254.75 (25/8/93)	10.50 (8/4/32)

DJ Ind. Day's High 3656.28 (3627.71) Low 3605.54 (3620.23) (Theoretical)
Day's High 3662.73 (3664.11) Low 3624.95 (3640.91) (Actual)

STANDARD AND POOR'S

	Aug 27	Aug 26	Aug 25	Aug 24	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	463.54	461.04	460.13	459.27	461.04 (25/8)	429.05 (8/1)	461.04 (25/8/93)	4.40 (1/6/32)
Industrials¶	521.06	522.07	521.55	522.02	524.59 (25/8)	486.45 (26/4)	524.59 (10/3/92)	3.62 (21/6/32)
Financial	46.65	47.09	46.98	46.31	47.36 (25/8)	39.89 (8/1)	47.08 (25/8/93)	8.64 (1/10/74)
NYSE Composite	256.43	255.83	255.22	255.11	255.80 (25/8)	236.27 (8/1)	255.80 (25/8/93)	4.46 (28/4/42)
Amex Mkt. Value	454.59	454.22	454.42	453.22	454.59 (27/8)	395.84 (5/1)	454.59 (27/8/93)	29.31 (9/12/72)
NASDAQ Composite	734.07	731.33	731.69	735.14	735.14 (24/8)	645.87 (26/4)	735.14 (24/8/93)	54.87 (31/10/72)

	Aug 20	Aug 13	Aug 6	year ago (approx.)
Dow Industrial Div. Yield	2.22	2.96	2.97	3.17
	Aug 25	Aug 18	Aug 11	year ago (approx.)
S & P Industrial div. yield	2.46	2.42	2.52	2.82
S & P Ind. P/E ratio	27.55	25.90	25.14	26.05

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Natl Med Ents	5,053,000	7¼	- 3½
Amer T & T	3,272,700	62¾	+ 2
Tenneco	2,457,000	54	- ⅛
Philip Morris	2,254,500	48⅞	+ ⅛
Chrysler	2,202,722	43⅞	+ ½
Merck	1,785,600	32⅞	+ ¼
Wal-Mart	1,642,500	25	+ ½
Home Depot	1,499,500	41⅛	- ⅝
Walt Disney	1,454,500	42⅛	+ ⅛
Pitney Bowes	1,431,700	40⅛	- 1⅝

TRADING ACTIVITY

Volume (Millions)	Aug 27	Aug 26	Aug 25
New York SE	190.363	240.695	257.145
Amex	15.737	19.280	19.143
NASDAQ	(a)	290.447	327.230
NYSE			
Issues Traded	2,397	2,402	2,387
Rises	[illegible]	1,023	1,000
Falls	[illegible]	[illegible]	[illegible]
Unchanged	707	[illegible]	641
New Highs	134	140	194
New Lows	5	10	10

CANADA TORONTO

	Aug 27	Aug 26	Aug 25	Aug 24	1993 HIGH	1993 LOW
Metals & Minerals	3086.43	3111.30	3102.20	3130.84	3140.94 (18/8)	2743.31 (21/1)
Composite	4130.48	4115.80	4122.88	4112.29	4133.49 (27/8)	3275.80 (21/1)
MONTREAL Portfolio	1947.29	1948.88	1955.22	1957.88	1957.80 (24/8)	1728.87 (21/1)

Base values of all indices are 100 except NYSE All Common - 50; Standard and Poor's - 10; and Toronto Composite and Metals - 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

WORLD INDICES

[illegible]

*Saturday August 28: Taiwan Weighted Price 3007.75; Korea Comp Ex. 699.32. ¶ Subject to official recalculation.

Base values of all indices are 100 except Austria Traded, ... and Australia All Ordinary and Mining - 500. (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Monday, August 30, 1993

	Stocks Traded	Closing Prices	Change on day
Fujitsu	12.5m	829	+5
Nichirei	4.0m	845	+24
Oki Elec	3.4m	643	-2
Itochu	3.3m	633	+2
Sekisui House	3.0m	1440	+30
Nikkatsu	2.8m	22	-1
SXL	2.8m	1520	+50
Honda Motor	2.1m	1450	
Kamigumi	2.0m	1330	+60
Daiwa House	1.8m	1710	+40

AMERICA

Dow starts new week on the upbeat

Wall Street

US SHARE prices edged higher across the board yesterday morning, aided by stronger overseas markets and further declines in domestic bond yields, *writes Patrick Harverson in New York.*

At midday, the Dow Jones Industrial Average was up 6.15 at 3,646.78. The more broadly based Standard & Poor's 500 gained 0.77 at 461.31, while the American SE composite was 1.39 firmer at 456.38 and the Nasdaq composite up 2.95 at 737.02. Trading volume on the NYSE was 85m shares by midday.

At the end of last week, profit-taking brought leading indices a few points down from their record highs, so analysts were expecting this week to start on an upbeat note. Those expectations were met, partly due to gains in Japanese and German equity markets, and to fresh strength in the US bond market.

In recent months lower bond yields have been the main driving force behind the equity markets' record-breaking run, and yesterday morning the benchmark 30-year government bond edged higher once again, lowering the yield on the issue to 6.124 per cent, near its historic low.

The day's only major economic news – the 5.0 per cent drop in July new home sales – had no apparent effect on investor sentiment. Investors will get a much better picture of the state of the economy later this week when a raft of key data, including second-quarter real gross domestic product and the August employment report, is released.

Technology issues were in demand, with Motorola firming \$1 to \$96⅝, IBM adding \$⅛ at \$44⅝, Digital Equipment rising \$⅛ to \$41⅝, and Compaq, which launched new models on one of its range of personal computers and lowered prices on others, climbing \$⅛ to \$53.

Chubb eased \$⅛ to \$89⅞ as investors took in their stride the news that the big insurance company will be taking an after-tax charge of \$358m, or \$3.95 a share, in the third quarter to cover an agreement that one of its units has struck to settle certain asbestos-related insurance claims.

Profit-taking took the shine off car manufacturing shares, which were among the market leaders last week. Chrysler eased \$⅛ to \$43⅝, Ford shed \$⅝ to \$51⅝ and General Motors dipped \$⅝ to \$46⅝.

On the Nasdaq market, Lotus Development moved ahead \$1¼ to \$32½ in volume of 2m shares after broking house Donaldson Lufkin & Jenrette upgraded its rating on the stock to "buy" from "moderately attractive", citing the strength and breadth of the company's products.

Other technology stocks were also firmer, with Microsoft up \$⅝ at \$72½, Intel \$1⅛ higher at \$64⅞ and Sun Microsystems ahead \$⅝ at \$25⅞.

Canada

TORONTO was little changed in quiet midday trading. The TSE 300 index was off just 0.73 at 4,132.67 in volume of 8.73m shares worth some C\$77.2m. Advancing stocks outpaced declines by 187 to 132, with 207 issues showing no change.

The precious metals index moved forward 74.82 to 9,566.41, helped by a gain for Placer Dome of C\$⅝ to C\$28⅝.

EUROPE

Paris equities soar to another record close

THE ABSENCE of UK traders for the August bank holiday affected bourse turnover, *writes Our Markets Staff*, leading in some cases to increased sensitivity at share price level.

PARIS, hoping for an interest rate cut by the Bank of France, which failed to materialise, nevertheless maintained its heady optimism for economic recovery, and the CAC-40 index soared to another record close. The index advanced 21.79, or 1 per cent, to 2,205.67 in turnover of FFr2.7bn.

Even a rise in unemployment data, which came in at a record high of some 3.2m, did not dent the market's enthusiasm, as the Matif also rose to unseen levels. Some technical trading ahead of today's expiry of August futures and options was another contributory factor behind the gains.

There were technical reasons, too, for the rise in St Gobain and L'Oreal stock, with the index weighting of the two groups due to be increased today as new shares are listed. St Gobain rose FFr7 to FFr584 and L'Oreal FFr27 to FFr1,183.

Canal Plus was one of the day's few fallers, off FFr7 to FFr1,295, as the government announced plans to raise the limit on stakes held in television companies from 25 per cent to 50 per cent.

FRANKFURT overcame a couple of minor disappointments to close higher, led by Allianz on technical grounds and Daimler on fundamentals. The DAX index rose 17.29 to 1,921.89 with Allianz up DM58 at DM2,570 and Daimler DM18.50 higher at DM748.50 – both at new highs for the year.

Turnover fell from DM6.7bn to DM5.8bn. DB Research said that it liked the Allianz chart, now that the insurer has broken firmly through the DM2,500 level; a technical analyst saw the next resistance level at DM2,800.

Daimler figured in a weekend report by Manager magazine which said that its Mercedes operating unit wanted to cut costs by DM3bn in the current year, in addition to job cuts already announced. Daimler said there was nothing new of substance in the report.

Hoechst, the third of the big three chemical groups to report half year profits, lost DM1.10 to DM280.10 after a 31 per cent fall at pre-tax level. Some traders called this marginally disappointing; others said that the results were in line with expectations after the BASF and Bayer declines last week.

A more dramatic fall was seen at Linotype-Hell, the printing machinery company, which lost DM22 to a new 1993 low of DM378 after a heavy first half loss. It recovered from an intraday low of DM365 after the company announced a wide-ranging job cuts programme to reduce its workforce by 15 per cent.

ZURICH featured recovery hopes at the employment agency group, Adia, and the forecast of a marked 1993 loss at the telecommunications equipment manufacturer, Ascom, as the SMI index maintained its equilibrium to close 2.5 higher at 2,481.0.

Both Adia and Ascom had been seen as turnround situations, said Mr Frederick Hasslauer at Swiss Volksbank in Zurich, but yesterday's news sent them in opposite directions with Adia SFr4 higher at SFr175 and Ascom SFr70, or 5.3 per cent lower at SFr1,250.

AMSTERDAM set new records, with the CBS Tendency index gaining 1.8 or 1.4 per cent to 129.9. The financial sector was strong following ABN Amro's good results last week: its shares advanced Fl 2.00 to Fl 69.20, while ING was up Fl 2.20 to Fl 73.90.

IHC Caland, the dredging group, added Fl 2.50 to Fl 38.00 in advance of a forecast of 14 per cent profits growth in 1993, which came after the close.

MILAN saw some activity in Montedison and Ferfin as the former's shareholders meeting was held, with the latter's due today. Montedison picked up L41 or 5 per cent to L845 as fears that there might be an announcement of a merger between the two groups abated. Ferfin's shares advanced L4.75 to L245.

The Comit index rose by 4.95 to 632.86.

Analysts at InterEuropa added that strength in banks yesterday might also have been due to a number of foreign investors coming into the market. Banca Commerciale rose L47 to L5,432 and Credito Italiano L70 to L2,850.

BRUSSELS sounded despondent as the Bel-20 index ended 8.88 down at 1,306.25 in lower than usual turnover of BFr704m. The market has retreated from the highs it achieved nearly three weeks ago; some dealers said that investors were unwilling to move on Belgian shares until the country's social pact is on track, and a solution is found to its burgeoning pubic debt.

STOCKHOLM's equities, especially its interest rate sensitive ones, defied a rise in bond yields as the Affärsvärlden general index recovered 22.00, or 1.7 per cent to 1,292.20 with the financial index up 4.4 per cent.

Volvo Bs closed SKr14 better at SKr484 on speculation about a merger with the French Renault, and on last week's unexpectedly strong six-month earnings report.

VIENNA continued to move forward, although prices ended off earlier highs. The ATX index rose 3.51 to 1,007.75.

WARSAW fell by some 7 per cent as as investors took profits after the market's recent heavy gains. The WIG index fell 503.4 to 6,970.7 in active turnover of 1,000bn zlotys.

● The FT-SE Eurotrack 100 index was unavailable yesterday because of the holiday in the UK.

SOUTH AFRICA

GOLD shares ended mainly lower in slow trading as the bullion price remained steady. The golds index relinquished 9 to 1,705, while the overall index receded 6 to 4,011. However, industrials inched forward 1 to 4,615.

Among golds, Vaal Reefs resisted the trend and firmed 50 cents to R249.50. Kloof lost 75 cents to R42.75 and Gold Fields fell R2.25 to R62.50.

Elsewhere, Barlow Rand and SA Breweries retreated 50 cents apiece to R40.50 and R62.50 respectively.

Taiwan's hopes rise for a second-half rally

Prospects favour equities, writes Dennis Engbarth

Taiwan's equity market could be ready for an upturn helped by improved prospects for export-oriented manufacturers and financial companies.

Confidence may also revive on political grounds: worries over a possible split in the ruling Kuomintang (KMT) party were eased earlier this month.

Some analysts believe that the TSE weighted index could again reach the 5,000 level that it hit at the beginning of April this year, although others more cautiously forecast a move to about 4,400.

Since April the index has fallen back, before stabilising around the 3,800 to 4,100 area, closing yesterday at 3,923.

The market's prospects may also be helped by a recommendation last week by Baring Securities, rating Taiwan as the most attractive of the world's emerging markets, with performance in the short term being assisted by the strength of the dollar.

The market's first-quarter rally coincided with the resignation of Mr Hau Pei-tsun as prime minister and his replacement by Mr Lien Chan, who has adopted a more pro-business style of government.

However, indications of an economic slowdown emerged in the second quarter, while the start of an economic contraction in mainland China also hurt a number of manufacturing companies exporting to or investing there.

As a result, the weighted index fell back, recording a year's low of 3,135.56 on July 7.

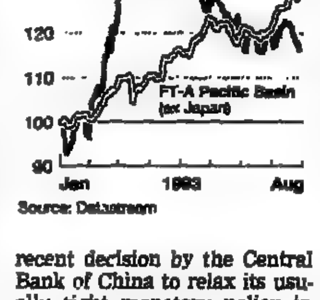
Earlier hopes for brighter economic prospects in the second half have been dampened by the most recent government forecast, which anticipates a slight decline in growth in the last six months of the year. Nevertheless, the recent depreciation of the New Taiwanese dollar against the US dollar has begun to have a positive impact on export orders.

"This factor will boost the performance of export-oriented sectors, such as electronics," says Mr George Hou, deputy manager of the fund department of Jardine Fleming Taiwan Investment Management. He adds that the performance of Taiwanese electronics companies will also be helped by the intense competition raging in the personal computer sector in the US and Japan.

"US and Japanese makers are coming to Taiwan to order low cost but high quality components, or to set up original equipment manufacturing arrangements," he notes.

The most positive development for equities has been the recent decision by the Central Bank of China to relax its usually tight monetary policy in an effort to spur a sluggish economy.

Taiwan



Source: Datastream

Mr Lin Yung-kui, manager of S.G. Warburg's research department in Taipei, believes that this decision will be "a very major factor" in boosting the market.

The Central Bank of China began to lower interest rates on secured loans from banks to encourage local banks to reduce their own rates.

But after major local banks showed a reluctance to make rate reductions, the CBC relaxed selective credit restrictions on August 14. These had been imposed in February 1990 to cool speculation in equities, the property sector and foreign exchange markets at a time when the TSE hit its all-time high of more than 12,000.

"This measure, and lower deposit rates, will make stock market investments more attractive," says Mr Hou.

Taipei is also trying to attract more foreign capital into the local market, mainly through liberalising the regulatory environment.

Mr Yu Ping-nan, assistant general manager of CBC's foreign exchange bureau, says the bank, together with the Ministry of Finance and the Securities and Exchange Commission, decided to introduce several measures to encourage foreign investment in the equity market.

Mr Yu says the Ministry of Finance will soon announce a rise in the total quota for investment by foreign securities houses in the stock market from \$2.5bn to \$5bn. Approved foreign securities investment has already surpassed \$2.1bn.

"Foreign investment is far below the proposed new quota, but the move indicates a positive attitude," says Mr Huang Shu-shen, vice-president of the international department of National Securities.

The CBC also announced recently a rule which allows each foreign investor to invest up to \$100m at a time, instead of having to divide investments in lots of \$50m. The CBC also asked the Ministry of Finance to liberalise rules on the repatriation of capital and earnings.

At present, each investor can repatriate earnings or invested capital a year after entry and only once each year.

The new draft rules, which may take effect by the end of the year, will allow foreign investors to repatriate earnings or invested capital within three months of entry, and will not place limits on the number of transactions.

Mr Lin Yung-kui, manager of S.G. Warburg's research department in Taipei, is impressed: "Unless the results of the local elections in late November are very bad for the KMT, political apprehension should be relaxed, producing a strong performance in the last month of the year."

ASIA PACIFIC

Nikkei registers its fifth consecutive gain

Tokyo

HOPES of an imminent cut in the official discount rate helped the Nikkei average to register its fifth consecutive gain, *writes Emiko Terazono in Tokyo.*

The Nikkei rose 121.01 to 20,912.69. Index-linked trading supported activity in the morning session, but lost steam later, the index falling to a day's low of 20,747.67 in the afternoon before rising to a high of 20,924.09 just before the close.

Volume came to 206m shares and advances led declines by 615 to 332, with 217 issues unchanged. The Topix index of all first section stocks put on 7.09 at 1,677.63.

Market participants hoped that the government's flotation of East Japan Railway shares, which will be listed in October, would revive trading. The public offering price for the 1.4m shares was fixed at Y380,000 after the market closed.

Fujitsu, the day's most active issue, firmed Y5 to Y839, supported by hopes about the government's investment in telecommunication infrastructure, and the company's development of a shopping cart with a scanner which reads bar codes. Nippon Telegraph & Telephone appreciated Y8,000 to Y955,000.

Strong demand in semiconductor chips boosted Nikon, which climbed Y12 to Y937. The company is likely to revise upwards its sales forecasts forchipmaking equipment for the year to next March.

Housing issues were strong on hopes of renewed demand in the near term. Sekisui House rose Y30 to Y1,440 and Daiwa House Y40 to Y1,710.

Steels were lower on profit-taking: Nippon Steel shed Y6 to Y375 and Kawasaki Steel lost Y9 to Y365.

In Osaka, the OSE average rose 27.50 to 22,773.75 in volume of 20.2m shares.

Roundup

THE REGION was quiet and mixed yesterday, reflecting the UK holiday and other closures in Hong Kong, Kuala Lumpur and Jakarta.

AUSTRALIA set a six-year high, the All Ordinaries index adding 7.4 at 1,956.0, its best since before the global stock market crash in October 1987.

Turnover fell from A\$810m to A\$366m, but brokers reported US-based buying on a combination of a higher gold bullion price and a favourable interpretation of Australia's current account deficit.

Media stocks were among the star performers, the media shares sub-index rising 265.1, or 1.8 per cent, to 14,353.0 after weekend claims that they were undervalued. News Corp moved forward 10 cents to A\$10.04 and John Fairfax was 19 cents higher at A\$2.95.

SEOUL tumbled in thin trading as it extended last week's 6 per cent decline, the composite index falling a further 17.70, or 2.6 per cent, to 672.12 in volume of 12.9m shares.

Share prices were hit by speculation that the government will not include measures to boost the stock market today when it unveils a package of follow-up measures aimed at minimising the adverse effect of the newly enforced financial system, requiring the use of proper identities in all financial transactions.

NEW ZEALAND was dragged lower by falls in Telecom, Carter Holt Harvey and Fletcher Challenge, although Brierley Investments bucked the trend, rising 4 cents to a 1993 high of NZ\$1.25 on speculation about a large asset sale, later denied by chief executive Mr Paul Collins. The NZSE-40 index finished 14.40 down at 1,984.10 in turnover of NZ\$65m.

SINGAPORE consolidated, a 12.82 fall to 1,995.10 in the Straits Times Industrial index aggravated by a decline in Metro Holdings, which traded ex-rights for the first time.

MANILA was lifted by Friday's advance of \$1⅛ to \$42⅞ in Philippine Long Distance Telephone on the American Stock Exchange. The composite index rose 10.28 to 1,776.07.

BOMBAY, closed today for a Moslem holiday, fell 35.17 to 2,633.79 in thin trading.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY AUGUST 27 1993								THURSDAY AUGUST 26 1993					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1993 High	1993 Low	Year ago (approx)
Australia (69)	146.05	-0.2	144.31	95.97	126.54	145.71	+0.8	3.45	146.30	143.89	96.55	126.38	144.89	148.94	117.38	131.40
Austria (17)	171.62	-0.1	169.57	112.77	148.69	148.74	-0.3	1.30	171.81	168.97	113.39	149.00	149.17	171.81	131.16	150.90
Belgium (42)	147.85	-0.4	146.09	97.15	128.10	129.44	-0.8	4.43	148.43	145.97	97.94	128.71	130.49	156.76	131.19	143.88
Canada (108)	127.58	-0.4	126.04	83.81	110.51	122.11	+0.2	2.76	128.12	126.00	84.55	111.10	121.91	130.38	111.41	125.97
Denmark (33)	222.02	+0.1	219.37	145.89	192.36	207.45	+0.3	1.09	221.72	218.05	146.32	192.27	206.87	227.15	185.11	225.18
Finland (23)	111.25	-1.5	109.92	73.10	96.39	136.35	-0.8	0.89	112.94	111.07	74.54	97.94	137.45	118.56	65.50	81.04
France (97)	167.93	+0.6	165.93	110.34	145.48	153.57	+0.4	3.01	166.96	164.20	110.18	144.77	153.01	167.93	142.72	157.89
Germany (60)	124.16	+0.2	122.68	81.59	107.57	107.57	+0.1	1.95	123.87	121.82	81.76	107.42	107.42	124.94	101.59	116.76
Hong Kong (55)	292.80	-0.1	289.31	192.39	253.70	291.32	-0.1	3.39	293.01	288.17	193.36	254.11	291.58	301.61	218.82	291.12
Ireland (15)	169.98	+0.2	167.96	111.70	147.28	171.03	-0.2	3.27	169.67	166.87	111.97	147.14	171.38	171.98	120.26	159.05
Italy (70)	78.88	+0.6	77.94	51.83	68.34	93.91	+1.0	1.74	78.39	77.10	51.78	67.98	93.01	78.88	53.78	83.81
Japan (470)	159.51	+1.4	157.61	104.81	138.22	104.81	+0.9	0.79	157.33	154.73	103.83	136.46	103.83	165.91	100.75	112.20
Malaysia (69)	387.51	+0.4	382.89	254.62	335.74	380.43	+0.4	1.80	385.78	379.41	254.58	334.54	378.73	387.51	251.86	234.19
Mexico (19)	1764.86	+1.0	1743.78	1159.68	1529.09	6003.01	+1.1	0.82	1747.05	1718.18	1152.93	1515.02	5936.69	1784.86	1410.30	1316.41
Netherland (24)	183.19	+0.8	181.00	120.37	158.72	156.56	+0.6	3.45	181.69	178.69	119.90	157.56	155.61	183.19	150.39	166.51
New Zealand (13)	61.78	-0.4	61.04	40.60	53.53	59.36	+0.2	0.76	62.00	60.97	40.92	53.77	59.25	62.86	40.56	42.60
Norway (22)	173.64	+0.5	171.57	114.10	150.45	170.87	+0.3	1.54	172.74	169.88	114.00	149.80	170.33	177.31	137.71	156.87
Singapore (39)	285.27	-0.2	281.86	187.45	247.15	211.08	-0.4	1.83	285.77	281.04	188.59	247.81	211.82	285.77	207.04	190.58
South Africa (60)	194.29	-1.1	191.97	127.66	168.30	193.59	-1.2	2.60	196.46	193.21	129.64	170.35	201.92	215.28	144.72	190.67
Spain (43)	139.59	+0.5	137.92	91.72	120.94	143.45	+0.9	3.97	138.69	136.40	91.53	120.27	142.21	139.59	115.23	137.48
Sweden (36)	184.59	+1.8	182.39	121.29	159.93	219.84	+1.4	1.53	181.24	178.25	119.61	157.17	216.72	198.23	149.70	184.17
Switzerland (50)	135.80	-0.1	134.18	89.24	117.67	123.93	+0.1	1.75	135.96	133.71	89.73	117.92	123.78	135.96	106.91	113.03
United Kingdom (218)	189.50	+0.2	187.24	124.50	164.17	187.23	+0.7	3.74	189.10	185.98	124.78	163.97	185.98	189.50	162.00	181.01
USA (520)	188.14	-0.1	185.90	123.63	163.02	188.14	-0.1	2.72	188.39	185.27	124.33	163.38	188.39	[illegible]	175.36	168.97
Europe (750)	157.30	+0.3	155.42	103.36	136.29	149.60	+0.5	2.99	156.77	154.18	103.46	135.96	148.88	157.30	133.92	146.41
Nordic (114)	175.58	+0.9	173.48	115.37	152.13	183.64	+0.6	1.35	173.94	171.07	114.79	150.84	182.16	[illegible]	142.13	168.29
Pacific Basin (714)	163.38	+1.2	161.43	107.36	141.56	112.07	+0.9	1.05	161.42	158.75	106.53	139.99	111.12	168.80	105.89	116.35
Euro-Pacific (1464)	160.77	+0.9	158.85	105.63	139.28	127.23	+0.7	1.83	159.40	156.77	105.18	138.22	126.33	162.72	117.26	128.51
North America (628)	184.37	-0.1	182.17	121.16	159.77	183.64	-0.1	2.72	184.64	181.59	121.86	160.14	183.86	184.64	171.51	166.27
Europe Ex. UK (532)	137.05	+0.4	135.42	90.08	118.77	127.77	+0.4	2.48	136.48	134.23	90.09	118.38	127.30	137.06	112.51	125.37
Pacific Ex. Japan (244)	201.90	+0.0	199.49	132.69	174.95	187.22	+0.2	3.01	201.96	198.65	133.32	175.18	186.86	202.66	152.70	157.01
World Ex. US (1651)	160.99	+0.8	159.07	105.79	139.49	129.34	+0.7	1.85	159.72	157.08	105.41	138.51	128.47	162.78	118.51	129.79
World Ex. UK (1953)	167.04	+0.5	165.05	109.77	144.74	143.70	+0.3	2.01	166.25	163.50	109.72	144.18	143.21	167.77	134.22	138.33
World Ex. So. Af. (2111)	168.98	+0.5	166.96	111.04	146.42	147.13	+0.4	2.17	168.19	165.41	111.01	145.87	145.57	168.60	137.29	141.77
World Ex. Japan (1701)	176.14	+0.0	174.04	115.75	152.63	171.80	+0.1	2.81	176.09	173.16	116.22	152.73	171.61	176.14	157.47	159.15
The World Index (2171)	169.03	+0.5	167.01	111.07	146.46	147.60	+0.4	2.18	168.27	165.49	111.05	145.93	147.05	169.88	137.32	142.02

Latest prices were unavailable for this edition.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, August 27, 1993. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
[illegible]					

Abbreviations: [illegible]

Friday, August 27, 1993

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 29.08.93: Pool purchase price £/MWh	Final Prices for Trading on 27.08.93: Pool purchase price £/MWh	Pool selling price £/MWh
0030	20.43	74.01	82.12
0100	20.48	74.01	81.83
0130	20.20	33.00	33.00
0200	20.20	33.00	33.00
[illegible]			

Prices are determined for every half-hour in each twenty-four hour period. [illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 30.08.93: Pool purchase price £/MWh	Final Prices for Trading on 28.08.93: Pool purchase price £/MWh	Pool selling price £/MWh
0030	21.27	33.00	37.77
0100	18.05	17.98	17.98
0130	18.05	24.51	24.51
0200	18.06	24.51	24.51
[illegible]			

Prices are determined for every half-hour in each twenty-four hour period. [illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 31.08.93: Pool purchase price £/MWh	Final Prices for Trading on 29.08.93: Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.11	18.04	[illegible]
0100	18.11	18.03	[illegible]
0130	18.11	32.00	[illegible]
0200	18.09	32.00	[illegible]
[illegible]			

Prices are determined for every half-hour in each twenty-four hour period. [illegible] placed upon provisional pool prices for any day being the same as final pool prices for that day. Pool pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8.30am and 5.15pm Monday to Friday.
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US COMMODITIES PRICES

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Sep	370.8	369.5	372.5	371.8
Oct	371.5	370.3	373.7	370.5
Dec	373.3	372.1	375.5	372.2
Feb	375.0	373.8	376.6	373.6
Apr	376.7	375.5	377.8	375.7
Jun	378.3	377.1	378.9	378.9
Aug	380.0	378.8	381.6	381.0
Oct	381.6	380.5	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Oct	384.0	381.8	385.0	380.8
Jan	384.5	382.0	385.0	382.5
Apr	385.1	382.8	386.5	382.5
Jul	385.9	383.5	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Sep	488.2	474.9	485.0	475.5
Oct	484.4	476.1	0	0
Dec	487.8	479.3	491.5	480.5
Jan	488.3	479.8	0	0
Mar	492.4	483.9	496.0	486.0
May	495.6	487.1	498.5	491.5
Jul	498.8	490.1	498.0	493.0
Sep	501.9	493.4	503.0	500.0
Dec	507.1	498.6	510.0	506.5

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Sep	85.30	85.80	85.70	85.25
Oct	85.55	85.70	0	0
Nov	85.70	85.75	0	0
Dec	85.90	85.80	86.10	85.40
Jan	86.00	85.90	0	0
Feb	86.10	86.00	0	0
Mar	86.20	86.10	86.05	85.90
Apr	86.30	86.20	0	0
May	86.35	86.25	0	0
Jun	86.45	86.35	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Oct	18.74	18.80	19.05	18.62
Nov	18.94	19.00	19.02	18.85
Dec	19.10	19.16	19.20	19.04
Jan	19.19	19.27	19.26	19.13
Feb	19.20	19.36	19.32	19.20
Mar	19.33	19.45	19.43	19.28
Apr	19.40	19.52	19.46	19.36
May	19.46	19.58	19.50	19.42
Jun	19.48	19.64	19.64	19.48
Jul	19.58	19.70	19.70	19.54

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Oct	55.10	[illegible]	[illegible]	[illegible]
Nov	55.80	[illegible]	[illegible]	[illegible]
Dec	56.80	[illegible]	[illegible]	[illegible]
Jan	57.10	57.22	57.40	57.25
Feb	57.25	57.30	57.25	57.10
Mar	56.30	56.40	56.45	56.20
Apr	55.30	55.20	[illegible]	[illegible]
May	54.50	54.30	54.50	54.50
Jun	53.80	[illegible]	[illegible]	[illegible]

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Sep	[illegible]	1025	1017	[illegible]
Dec	1088	1082	1097	1080
Mar	1129	1131	1136	1165
May	1150	1152	1166	1146
Jul	1170	1172	0	0
Sep	1196	1193	1200	1200
Dec	1223	1221	0	0
Mar	1246	1244	0	0
May	1266	1264	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Sep	76.75	76.55	76.85	76.85
Dec	79.40	79.15	79.85	78.50
Mar	81.50	81.30	81.95	80.80
May	82.90	82.50	82.90	82.50
Jul	84.25	83.80	84.25	84.00
Sep	85.60	85.40	0	0
Dec	86.75	88.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	9.34	9.15	9.35	9.08
Mar	9.64	9.40	9.65	9.40
May	9.80	9.57	9.81	9.57
Jul	9.86	9.66	9.85	9.66
Oct	9.91	9.70	9.88	9.87

COTTON 50,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	54.90	56.22	56.30	54.40
Dec	56.08	57.65	57.75	55.72
Mar	57.35	59.00	59.20	57.30
May	57.90	59.70	59.85	57.75
Jul	59.00	60.71	60.40	59.00
Oct	59.71	60.20	60.20	59.71
Dec	59.45	60.20	60.00	59.40

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Sep	124.15	122.55	124.20	122.80
Nov	127.40	125.55	127.45	125.70
Jan	128.55	126.70	128.60	127.00
Mar	129.60	127.85	129.50	128.35
May	130.80	128.85	130.90	130.00
Jul	130.95	128.95	129.75	128.00
Sep	130.95	128.95	128.00	128.00
Nov	130.95	128.95	0	0
Jan	130.95	128.95	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Aug 27	Aug 26	mnth ago	yr ago
1628.7	1630.2	1649.1	1516.8

DOW JONES (Base: Dec. 31 1974 = 100)

	Aug 27	Aug 26	mnth ago	yr ago
Spot	123.12	122.55	124.88	118.41
Futures	127.78	126.64	131.18	115.82

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Nov	674/2	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Sep	[illegible]	[illegible]	24.05	[illegible]
Oct	23.92	23.90	24.25	[illegible]
Dec	24.16	24.15	24.47	[illegible]
Jan	24.24	24.22	24.42	[illegible]
Mar	24.34	24.35	24.46	[illegible]
May	24.34	24.38	24.50	[illegible]
Jul	24.25	24.22	24.45	[illegible]
Aug	24.05	24.02	24.30	[illegible]

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Sep	211.3	211.8	212.2	[illegible]
Oct	210.7	210.7	211.5	[illegible]
Dec	211.6	211.7	212.3	[illegible]
Jan	212.4	212.5	212.5	[illegible]
Mar	213.1	213.5	213.5	[illegible]
May	213.3	213.5	214.0	211.5
Jul	213.6	214.0	214.0	[illegible]
Aug	212.0	211.2	212.0	211.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Sep	231/6	234/0	234/4	[illegible]
Dec	240/4	241/2	242/4	[illegible]
Mar	249/2	249/4	251/0	[illegible]
May	254/2	254/4	256/2	[illegible]
Jul	257/2	257/4	259/2	[illegible]

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Sep	305/2	301/2	306/0	301/4
Dec	313/2	310/6	314/0	308/2
Mar	316/2	313/6	317/0	313/6
May	308/4	305/6	311/4	308/4
Jul	302/2	300/6	302/2	300/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	75.025	74.575	75.200	74.425
Dec	75.325	74.950	75.600	74.850
Feb	75.500	75.375	75.675	75.325
Apr	76.500	76.400	76.650	76.250
Jun	73.275	73.225	73.375	73.075
Aug	72.100	72.075	72.375	72.000

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Oct	46.800	47.200	47.425	46.700
Dec	46.300	46.325	46.600	46.000
Feb	45.275	45.325	45.525	45.050
Apr	43.950	43.950	44.175	43.875
Jun	49.100	49.125	49.125	48.950
Jul	48.200	48.200	48.200	48.000
Aug	46.950	46.850	46.950	46.700

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	51.375	51.800	52.050	51.025
Mar	51.075	51.400	51.850	50.700
May	51.800	52.275	52.200	51.800
Jul	51.800	52.300	52.500	51.250
Aug	51.800	51.800	0	0

UK commodity markets were closed yesterday.

FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
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	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Grs	City-Line
Singer & Friedlander UT Mgmt Ltd (1000)F						
PO Box 224, Beckenham BR3 4TF						081-663 3003
European Trust	6	56.38	56.51	60.12	1.10	4295
Far Eastern Tst	6	67.23	68.22	72.58	0.18	[illegible]
Smaller Cos	5	189.2	174.2	185.3	1.46	[illegible]
Smith & Williamson Unit Tst Mgrs (1700)F						
1 Riding House St, London W1A 3AS						071-637 5377
S & W American	5	279.3	279.7	295.0	0.81	[illegible]
S & W Capital	5	[illegible]	[illegible]	135.7	1.24	[illegible]
S & W Cash	0	101.99	101.89	101.89	5.40	[illegible]
S & W European	5	[illegible]	122.3	[illegible]	0.97	[illegible]
S & W Far Eastern	5	159.7	161.5	170.9	0.00	[illegible]
S & W Growth	5	[illegible]	[illegible]	[illegible]	1.18	[illegible]
S & W Income	5	[illegible]	128.4	133.0	4.32	[illegible]
S & W Magnum	5	[illegible]	[illegible]	[illegible]	1.20	[illegible]
S & W Smlr Secs	5	339.9	347.1	367.3	0.56	[illegible]
S & W Thoroughbred	5	[illegible]	[illegible]	[illegible]	1.17	[illegible]
Sovereign Unit Tst Mngrs Ltd (1000)F						
12 Christchurch Rd, Bournemouth						0202 298422
Cash	1	50.08	50.58	50.58	5.3	[illegible]
Cntrl/s Pritreece	5½	58.57	56.89	62.61	7.3	[illegible]
Ethical	5½	56.33	57.19	60.83	3.5	[illegible]
European Growth	5½	64.09	64.50	68.80	2.5	[illegible]
Income	5½	58.63	57.07	60.87	3.3	[illegible]
Intl Growth	5½	87.13	87.72	93.39	2.8	[illegible]
Managed	5½	75.04	75.67	80.22	3.3	[illegible]
UK Growth	5½	59.59	60.43	64.51	4.0	[illegible]
Standard Life Tst Mgmt Ltd (0730)H						
3 George St, Edinburgh EH2 2XZ						0800 393777
Managed Acc	5¼	47.29	47.29	50.25	1.39	[illegible]
UK Equity Gth Acc	5¼	63.88	65.11	69.19	1.03	[illegible]
UK Eq High Inc Unc	5¼	38.71	38.71	41.13	3.44	[illegible]
UK Eq High Inc Acc	5¼	45.97	45.97	48.85	3.44	[illegible]
UK Equity Gen Acc	5¼	58.00	59.09	62.79	1.58	[illegible]
UK Equity Gen Inc	5¼	43.92	44.72	47.52	1.86	[illegible]
UK Larger Cos Acc	F 7½	398.7	404.0	433.4	3.54	[illegible]
UK Larger Cos Inc	F 7½	306.2	310.3	330.7	3.54	[illegible]
Gilt & Fxd Int Inc	5¼	32.92	33.01	34.91	5.88	[illegible]
O'seas Larg Cos Acc	F 7½	291.5	298.8	321.9	1.35	[illegible]
Nth American Acc	5¼	43.73	44.00	46.78	0.84	[illegible]
Far East Acc	5¼	60.40	60.40	64.18	0.19	[illegible]
European Acc	5¼	44.71	44.71	47.51	0.99	[illegible]
State Street Unit Trust Mngmt Ltd (1400)F						
38 King Street, London SW1 0DW						071-344 7000
Global A	5¼	[illegible]	1.719	2.344	1.29	[illegible]
US Equities (u)	5¼	[illegible]	2.204	2.241	1.14	[illegible]
Far East Equities (u)	5¼	[illegible]	244.8	260.1	-	[illegible]
Japan Equities (u)	5¼	[illegible]	216.7	284.1	-	[illegible]
FT Europe (u)	5¼	120.9	121.3	139.5	2.03	[illegible]
FT North American (u)	5¼	[illegible]	1.736	1.865	1.29	[illegible]
FT Japan (u)	5¼	[illegible]	245.8	261.7	-	[illegible]
FT Asia Ex Japan (u)	5¼	[illegible]	2.015	2.140	1.43	[illegible]
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq, Edinburgh						031-226 3271
American	5	348.5	348.5	371.9	0.32	[illegible]
(Accum Units)	5	410.9	410.9	438.5	0.32	[illegible]
British	5	[illegible]	1018.3	1075.2	3.78	[illegible]
(Accum Units)	5	1731.6	1731.8	1921.3	3.78	[illegible]
Emerging Markets	5	115.7	118.5	124.1	0.20	[illegible]
(Accum Units)	5	118.0	118.7	124.3	0.20	[illegible]
European	5	413.3	413.3	440.2	1.32	[illegible]
(Accum Units)	5	453.6	453.8	483.3	1.32	[illegible]
Japan	5	159.0	159.0	169.2	-	[illegible]
(Accum Units)	5	159.3	159.3	169.5	-	[illegible]
New Pacific	5	310.9	312.2	332.9	0.58	[illegible]
(Accum Units)	5	[illegible]	[illegible]	[illegible]	0.58	[illegible]
Investment Tst	5	208.2	208.7	221.2	1.01	[illegible]
(Accum Units)	5	230.1	232.0	236.0	1.01	[illegible]
Mngd Equity	5	161.0	162.9	172.2	1.47	[illegible]
Mngd Equity Acc	5	178.5	179.4	189.7	1.17	[illegible]
Mngd Cash	0	95.33	95.33	95.33	5.17	[illegible]
(Accum Units)	0	128.8	128.8	128.9	5.17	[illegible]
Majority Stg	1	100.12	100.12	101.12	[illegible]	[illegible]

	Bid Price	Offer Price	Yield Gross	City-Line
Foreign & Colonial Unit Management Ltd				
Balanced Acc Aug 25	199.1	207.0	2.95	43441
Balanced Inc Aug 25	195.6	203.2	2.95	43443
Latin American Acc Aug 25	118.0	117.4	1.58	43444
Funds in Court*				
Capital Aug 19	596.27	690.76	3.50	40505
Gross Aug 19	220.80	222.37	8.48	40506
High Yield Aug 19	351.50	364.03	7.14	40507
*Restricted to investors under Court control				
Govett (John) Unit Mngmt Ltd				
Managed Exempt	117.03	121.12	10.09	43446
Henderson Unit Trust Management Ltd				
Pensions Mngd	67.00	68.37	2.88	[illegible]

	Bid Price	Offer Price	Yield Gross	City-Line
Albany Life Assurance Co Ltd - Contd.				
Broker Funds				
YRA Strategy	159.4	167.7	-	41719
YRA Performance	151.2	159.1	-	[illegible]
Allied Dunbar Assurance Plc				
Allied Dunbar Ctr, Swindon SN1 1EL				0793 514514
Life Funds				
Fixed Int. Dep. Acc.	357.1	376.0	-	41723
Equity Acc	1322.5	1392.2	-	41724
Property Acc	480.3	505.6	-	41725
Far East Acc	274.6	289.1	-	41726
European Acc	35.4	37.3	-	41727
Managed Acc	1020.4	1074.2	-	41728
O'seas Earnings Acc	893.1	940.2	-	41730

	Bid Price	Offer Price	Yield Gross	City-Line
Citibank Life				
Pennymead Road, Haywards Heath				0444 414111
Managed				
Schroders Ser 1	380.2	365.6	-	41817
Schroders Ser 2	350.2	370.2	-	41827
Schroders Acc Ser 3	140.7	148.7	-	[illegible]
Schroders Pens Accum	534.5	562.6	-	41830
Perpetual Ser 2	119.3	125.5	-	[illegible]
Perpetual Pens Accum	114.8	120.9	-	[illegible]
Framlington Ser 2	94.1	99.1	-	-
Framlington Pens Accum	94.2	99.1	-	-
Specialist				
Equity Ser 1	519.8	547.2	-	[illegible]
Equity Ser 2	514.8	541.1	-	[illegible]
Equity Acc Ser 3	146.1	152.2	-	[illegible]

	Bid Price	Offer Price	Yield Gross	City-Line
Eurolife Assurance Company Ltd				
Eurolife Hse, 16 St John St, EC1M 4AY				071-454 0105
Intl Mngd Pension Fd	191.30	202.00	-	[illegible]
Intl Man Cncy Bd Fd	301.30		-	43370
Intl Man Cncy Bd Fdcs	180.38		-	43371
Flexible Prop. Bd. Fd.	233.10		-	43372
Flexible Money Bd. Fd.	481.80		-	43373
Intl Discretionary	258.70		-	43374
Building Society	-		7.30	[illegible]
Family Assurance Society				
17 West St, Brighton BN1 2RL				0273 724570
Family A Managed	751.80	787.33	-	42251
Family A Managed Ser 2	78.22	79.81	-	47043
Family B Managed	322.70	343.87	-	42252
Family B Managed Ser 2	68.51	69.52	-	47044

INSURANCES

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

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Providence Capital Life Assc. Co Ltd - Contd.

	Bid Price	Offer Price	Yield Gross	City-Line
Group Pension Funds				
Equity Acc	1180.5	1217.1	-	43473
Fixed Interest Acc	940.3	959.4	-	43474
Managed Acc	177.6	181.1	-	43475
Alpha Funds				
UK Alpha		229.7	-	47220
US Alpha		110.3	-	47221
Gilt Alpha		89.3	-	47722
Gold Alpha		97.2	-	47723
Japan Alpha		48.1	-	47224
US Dollar Alpha		72.6	-	47225
Yen Alpha		77.8	-	47226
D-Mark Alpha		76.1	-	47227
European Alpha		82.0	-	47228
Alpha Pension Funds				
UK Alpha		247.4	-	47229
US Alpha		125.0	-	47230
Gilt Alpha		90.3	-	47231
Gold Alpha		95.2	-	47232
Japan Alpha		48.6	-	47233
US Dollar Alpha		75.9	-	47234
Yen Alpha		84.2	-	47235
DM Alpha		88.7	-	47236
European Alpha		98.0	-	47237

Provident Life Assoc Ltd
Provident Way, Basingstoke RG21 2SZ 0256 470707

	Bid Price	Offer Price	Yield Gross	City-Line
Gold Range (Pensions)				
Managed Fund		169.0	-	46412

Provident Mutual Life Assc. Assn.
5 Hills Way Stevenage Herts SG1 2ST 0438 732000

	Bid Price	Offer Price	Yield Gross	City-Line
Managed Ord	444.0	467.4	-	43484
Managed Init	312.1	328.5	-	43485
Equity Ord	672.7	708.1	-	43486
Equity Init	472.8	497.7	-	43487
Index Linked Gilt Ord	202.9	213.6	-	43488
Index Linked Gilt Init	149.0	156.8	-	43489
Overseas Equity Ord	355.8	374.7	-	43490
Overseas Equity Init	249.9	263.1	-	43491
Property Ord	233.0	245.3	-	43492
Property Init	163.7	172.3	-	43493
Fixed Interest Ord	278.2	292.8	-	43494
Fixed Interest Init	195.5	205.8	-	43495
Deposit Ord	198.0	208.4	-	43496
Deposit Init	139.2	146.5	-	43497

Save & Prosper Group (z)
16-22 Western Rd, Romford RM1 3LB 0708-766966

	Bid Price	Offer Price	Yield Gross	City-Line
A.B. Bond Fd	140.9	148.1	-	43852
Bal Inv Fd	700.4	741.2	-	43841
Deposit Fd†	353.1	373.7	-	43842
Directors' Portfolio	78.2	82.8	-	44438
Equity Pens Fd	178.8	189.3	-	43846
European Mngd Fd	61.4	65.0	-	44172
Gilt Fd	507.4	537.0	-	43843
Gilt Pens Fd	139.9	148.1	-	43847
Global Equity Fd	217.8	230.6	-	43844
Global Eq Pens Fd	207.2	219.3	-	43849
High Int Pens Fd†	129.1	136.7	-	43848
Japanese Mngd Fd	74.2	78.6	-	44306
Managed Income Fd	50.6	53.6	4.76	44323
Mngd Pens Fd	180.3	190.8	-	43850
North American Mngd Fd	67.0	71.0	-	44328
Pacific Mngd Fd	69.0	73.1	-	44332
Property Fd*	89.4	94.7	-	43845
Prop Pens Fd*	114.6	121.3	-	43851
Taurus Lambert Managed	205.6	217.6	-	47727
UK Capital Portfolio	59.2	62.7	-	44334
UK Managed Gth Fd	57.4	60.8	-	44337

†Weekly dealings. *Fortnightly dealings

Scottish Amicable
150 St Vincent St, Glasgow 041-248 2323

	Bid Price	Offer Price	Yield Gross	City-Line
Life Funds (First Series)				
Managed	437.2	460.3	-	43861
Equity	561.6	590.9	-	43855
Property	243.7	256.5	-	43858
International	435.5	458.5	-	43857
Japanese	126.7	133.4	-	48257
Asia Pacific	150.7	158.7	-	48254
European	119.8	126.2	-	48255
American	154.1	162.3	-	48253
Fixed Interest	363.7	382.0	-	43856
Index-Linked Gilt	197.4	207.8	-	43860
Cash	221.9	233.6	-	43859
Life Funds (Second Series)				
Managed	121.8	128.2	-	47103
Equity	118.8	125.1	-	47097
Property	104.3	109.8	-	47107
International	134.8	141.9	-	47101
Japanese	127.1	133.8	-	47102
Asia Pacific	148.7	155.9	-	47059
European	119.0	125.3	-	47079

[illegible]

OFFSHORE INSURANCES

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

CANADA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

هكذا منه الأصل

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Gartmore Fund Mngrs Intl Ltd - Contd.

Bank Von Ernst & Cie AG

INVESCO International Limited - Contd.

Alliance Capital - Contd.

Asian Development Equity Fund

Atlantas Sicav

NICAM Asia Pacific Umbrella Fund

Nikko Bank (Luxembourg) S.A.

Butterfield Management Co Ltd

CA Securities Investment Fund Mangt Ltd

CDC International

Group One International Tst

PRS International

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE AND MONEY MARKETS

Focus on the dollar

AFTER THE recent debacle in the exchange rate mechanism, there are signs that the market's attention could focus more intensely on the dollar, *writes James Blitz.*

The US currency appeared to be at a turning-point against the D-Mark on Friday night.

For the second day running, it closed below the DM1.67 level against the German currency.

UK clearing bank base lending rate
6 per cent
from January 26, 1993

Some analysts have seen that as an important level. The dollar spent the first six months of this year trying to break through that chart point.

Two sets of data in the US will determine whether the dollar chooses the upside or downside from this level. Tomorrow's National Association of Purchasing Managers' survey could point to only moderate output growth.

An even more significant indicator will be the August non-farm payroll, with the market expecting a rise of 150,000 on the month.

This indicator is regularly seen as the most important indicator for the dollar in the US market. Mr Paul Chertkow, global currency strategist at UBS, believes a strong figure will give the US currency strong support.

The research team at Swiss Bank is more sceptical about the dollar. In its new weekly bulletin on investment strategy, Swiss Bank forecasts that a break towards or below its year-end target of DM1.60 will take place next month.

Much will depend, of course, on data coming out of Germany. The Bundesbank has given a very strong indication that it intends to keep policy on hold for some time. However, the industrial output indicator for July is due out this week.

This is expected to show an 8 per cent drop on the year, adding to pressure on the Bundesbank to stimulate the German economy by easing interest rates.

£ IN NEW YORK

Aug 30	Latest	Previous Close
£ Spot	1.4905-1.4915	1.5045 1.5055
1 month	0.35-0.34pm	0.35 0.33pm
3 months	1.02-0.99pm	1.02 0.99pm
12 months	3.02-2.92pm	3.02 2.92pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

		Aug 27	Previous
8.30	am	81.5	80.4
9.00	am	81.4	80.5
10.00	am	81.4	80.5
11.00	am	81.3	80.5
Noon		81.3	80.6
1.00	pm	81.3	80.4
2.00	pm	81.3	80.6
3.00	pm	81.1	80.6
4.00	pm	80.8	80.7

CURRENCY MOVEMENTS

Aug 30	Bank of England Index	Morgan Guaranty Changes %
Sterling	80.8	-29.01
U.S. Dollar	65.4	-12.00
Canadian Dollar	91.2	-10.26
Austrian Schilling	114.6	+16.48
Belgian Franc	112.0	-1.19
Danish Krone	110.5	+5.15
D-Mark	124.7	+32.45
Swiss Franc	113.7	+23.34
Dutch Guilder	119.6	+21.76
French Franc	105.9	-8.40
Lira	79.2	-35.16
Yen	189.2	+129.32
Peseta	86.8	-33.80

OTHER CURRENCIES

Aug 27	£	$
Argentina	1.5100 - 1.5115	1.0000 - 1.0010
Australia	2.2615 - 2.2635	1.4895 - 1.5005
Brazil	139.025 - 139.030	92.0690 - 92.0710
Finland	8.7265 - 8.8135	5.8300 - 5.8500
Greece	351.350 - 358.400	232.500 - 237.200
Hong Kong	11.6335 - 11.6540	7.7490 - 7.7500
Iran	2305.00 - 2315.00	1582.00 - 1584.00
Korea(Sth)	1211.65 - 1231.10	805.10 - 811.50
Kuwait	0.44950 - 0.45050	0.30080 - 0.30120
Luxembourg	53.20 - 53.30	35.45 - 35.55
Malaysia	3.8255 - 3.8355	2.5485 - 2.5495
Mexico	4.6950 - 4.6990	3.1100 - 3.1120
N.Zealand	2.7310 - 2.7340	1.8085 - 1.8105
Saudi Ar	5.6285 - 5.6400	3.7495 - 3.7505
Singapore	2.4075 - 2.4140	1.6050 - 1.6060
S.Af (Cm)	5.0495 - 5.0805	3.3655 - 3.3670
S.Af (Fn)	7.0835 - 7.1045	4.6950 - 4.7050
Taiwan	40.60 - 40.75	26.90 - 27.00
U.A.E.	5.5085 - 5.5235	3.6715 - 3.6735

CURRENCY RATES

Aug 30	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	-	0.934082	0.768082
U.S Dollar	3.00	1.40922	1.14791
Canadian $	4.67	1.86271	1.51410
Austrian Sch	8.25	16.5366	13.4811
Belgian Franc	8.00	50.3197	40.8399
Danish Krone	9.25	8.70671	7.90051
D-Mark	6.75	2.35100	1.91564
Dutch Guilder	6.75	2.64874	2.15314
French Franc	10	8.22421	6.70278
Italian Lira	9.00	2248.36	1832.64
Japanese Yen	2.50	147.334	119.429
Norway Krone	-	10.2498	8.33672
Spanish Peseta	-	181.690	165.416

POUND SPOT - FORWARD AGAINST THE POUND

Aug 27	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4955 - 1.5130	1.5000 - 1.5010	0.35-0.34cpm	2.76	1.02-0.99pm	2.68
Canada	1.9765 - 1.9880	1.9765 - 1.9775	0.24-0.18cpm	1.21	0.85-0.48pm	1.14
Netherlands	2.8050 - 2.8415	2.8050 - 2.8150	1/8-1/4cdis	-0.80	3/8-1/2dis	-0.62
Belgium	53.05 - 54.10	53.20 - 53.30	16-25cdis	-4.02	36-53dis	-3.34
Denmark	10.2860 - 10.4175	10.3025 - 10.3125	4 7/8-6 1/4oredis	-6.48	12 1/4-13 5/8dis	-5.02
Ireland	1.0695 - 1.0845	1.0695 - 1.0705	0.07-0.11cdis	-1.01	0.18-0.23dis	-0.73
Germany	2.4975 - 2.5270	2.4975 - 2.5025	1/4-3/8pfdis	-1.50	1/2-5/8dis	-0.90
Portugal	254.70 - 259.95	254.70 - 255.70	98-174cdis	-6.35	298-400dis	-5.47
Spain	202.65 - 205.65	203.45 - 203.75	84-94cdis	-5.25	233-253dis	-4.76
Italy	2384.70 - 2415.65	2391.25 - 2392.25	7-9lredis	-4.01	20-22dis	-3.51
Norway	10.8565 - 10.9930	10.8725 - 10.8825	1/8-1 1/8oredis	-0.69	1/2-2 1/2dis	-0.55
France	8.7370 - 8.8430	8.7425 - 8.7525	1 1/8-2cdis	-2.31	3 1/8-4 1/4dis	-1.74
Sweden	12.0550 - 12.3075	12.0675 - 12.0775	1 1/4-3 1/8oredis	-2.42	5 1/8-6 1/4dis	-2.07
Japan	155.50 - 157.55	155.50 - 156.50	1/2-3/8ypm	3.37	1 1/4-1 1/8pm	3.04
Austria	17.54 - 17.76	17.54 - 17.57	1-2grodis	-1.03	2 1/8-4 1/8dis	-0.71
Switzerland	2.2025 - 2.2280	2.2025 - 2.2125	1/4-1/8cpm	1.02	3/4-1/2pm	1.13
Ecu	1.3130 - 1.3280	1.3130 - 1.3140	0.24-0.27cdis	-2.33	0.58-0.64dis	-1.86

Commercial rates taken towards the end of London trading. Six-month forward dollar 1.73-1.68pm 12 Month 3.02-2.92pm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Aug 27	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4955 - 1.5130	1.5000 - 1.5010	0.35-0.34cpm	2.76	1.02-0.99pm	2.68
Ireland†	1.3930 - 1.4025	1.4000 - 1.4010	0.47-0.44cpm	3.90	1.27-1.20pm	3.53
Canada	1.3145 - 1.3225	1.3215 - 1.3225	0.15-0.19cdis	-1.54	0.47-0.55dis	-1.54
Netherlands	1.8690 - 1.8780	1.8720 - 1.8730	0.55-0.60cdis	-3.68	1.51-1.59dis	-3.31
Belgium	35.30 - 35.75	35.45 - 35.55	23-27cdis	[illegible]	58-64dis	-6.87
Denmark	6.8560 - 6.8940	6.8675 - 6.8725	4.50-5.30oredis	-8.56	12.10-13.60dis	-7.48
Germany	1.6630 - 1.6710	1.6660 - 1.6670	0.53-0.54pfdis	-3.85	1.44-1.47dis	-3.49
Portugal	170.10 - 170.55	170.20 - 170.30	116-123cdis	-8.39	330-355dis	-8.05
Spain	135.25 - 136.00	135.60 - 135.70	85-93cdis	-7.83	245-258dis	-7.42
Italy	1588.75 - 1599.00	1593.75 - 1594.25	8.90-9.60lredis	-6.96	24.80-25.80dis	-6.35
Norway	7.2405 - 7.2790	7.2475 - 7.2525	1.70-2.25oredis	-3.27	5.00-5.95dis	-3.02
France	5.8225 - 5.8525	5.8275 - 5.8325	2.30-2.50cdis	-4.94	6.25-6.65dis	-4.43
Sweden	8.0315 - 8.1410	8.0425 - 8.0475	2.90-3.70oredis	-4.92	8.60-9.80dis	-4.57
Japan	103.75 - 104.55	103.90 - 104.00	0.02pm-0.01ypm	0.17	0.10-0.08pm	0.35
Austria	11.7180 - 11.7480	11.7350 - 11.7400	3.40-3.80grodis	-3.68	9.60-10.80dis	-3.49
Switzerland	1.4670 - 1.4750	1.4715 - 1.4725	0.20-0.23cdis	-1.75	0.53-0.61dis	-1.55
Ecu†	1.1365 - 1.1415	1.1400 - 1.1410	0.48-0.47cpm	5.00	1.29-1.27pm	4.49

Commercial rates taken towards the end of London trading. † UK, Ireland and Ecu are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EXCHANGE CROSS RATES

Aug 27	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Pta.	Ecu
£	1	1.501	2.500	158.0	8.748	2.208	2.810	2392	1.977	53.25	203.6	1.314
$	0.666	1	1.666	103.9	5.828	1.471	1.872	1594	1.317	35.48	135.6	0.875
DM	0.400	0.600	1	62.40	3.499	0.883	1.124	956.8	0.791	21.30	81.44	0.526
YEN	6.410	9.622	16.03	1000.	56.08	14.15	18.01	15333	12.67	341.3	1305	8.423
F Fr.	1.143	1.716	2.858	178.3	10.	2.524	3.212	2734	2.260	60.87	232.7	1.502
S Fr.	0.453	0.680	1.132	70.65	3.962	1	1.273	1083	0.895	24.12	92.21	0.595
N Fl.	0.356	0.534	0.890	55.52	3.113	0.786	1	851.2	0.704	18.95	72.46	0.468
Lira	0.418	0.628	1.045	65.22	3.657	0.923	1.175	1000.	0.827	22.26	85.12	0.549
C $	0.506	0.759	1.265	78.91	4.425	1.117	1.421	1210	1	26.93	103.0	0.665
B Fr.	1.878	2.819	4.695	293.0	16.43	4.146	5.277	4492	3.713	100.	382.3	2.468
Pta	0.491	0.737	1.228	76.62	4.297	1.084	1.380	1175	0.971	26.15	100.	0.645
Ecu	0.761	1.142	1.903	118.7	6.658	1.680	2.138	1820	1.505	40.53	154.9	1.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

Treasury Bills (sell); one-month 5 3/8 per cent; three months 5 1/8 per cent; six months 5 1/8 per cent; Bank Bills (sell): one-month 5 13/32 per cent; three months 5 3/8 per cent; Treasury Bills; Average tender rate of discount 5.0940 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day August 31, 1993. Agreed rates for period Sep 26, 1993 to Oct 25, 1993 Schemes II & III: 7.15 p.c. Reference rate for period July 31, 1993 to Aug 31, 1993, Scheme IV&V: 5.896 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 6pc from August 1, 1993: Bank Deposit Rate for sums at 7 days notice 5 1/4 p.c. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 2 3/4 p.c.; one-three months 5 1/4 p.c.; three-six months 5 p.c.; six-nine months 4 3/4 p.c.; nine-twelve months 4 1/2 p.c.; Under £100,000 2 3/4 p.c. from Jan.27, 1993. Deposits withdrawn for cash 1 1/4 p.c.

PHILADELPHIA SE £/$ OPTIONS

£31,250 (cents per £1)

Strike Price	Calls Sep	Calls Oct	Calls Nov	Calls Dec	Puts Sep	Puts Oct	Puts Nov	Puts Dec
1.425	0.33	6.56	5.67	7.11	0.08	0.64	1.21	1.65
1.450	4.02	4.63	5.14	6.48	0.21	1.20	1.96	2.66
1.475	2.11	3.11	3.69	4.09	0.74	2.10	2.96	3.73
1.500	0.62	1.94	2.64	3.01	1.85	3.39	4.30	5.10
1.525	0.22	1.13	1.70	[illegible]	3.80	5.07	5.93	6.70
1.550	0.05	0.64	1.05	1.47	6.07	7.00	7.79	8.45
1.575	0.01	0.32	0.68	0.98	8.45	9.12	9.76	10.43

Previous day's open int. Calls 706,428 Puts 650,420 (All currencies)
Previous day's volume Calls 14,279 Puts 10,126 (All currencies)

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	NatWestminster	6
Allied Trust Bank	6	Duncan Lawrie	6	Nykredit Mortgage Bnk	6.5
AIB Bank	6	Equatorial Bank plc	6	●Rea Brothers	6
●Henry Ansbacher	6	Exeter Bank Limited	7	*Roxburghe Bank Ltd	6
B & C Merchant Bank	13	Financial & Gen Bank	7	* (in administration)	
Bank of Baroda	6	●Robert Fleming & Co	6	Royal Bk of Scotland	6
Banco Bilbao Vizcaya	6	Girobank	6	●Smith & Williman Secs.	6
Bank of Cyprus	6	●Guinness Mahon	6	Standard Chartered	6
Bank of Ireland	6	Habib Bank AG Zurich	6	TSB	6
Bank of India	6	●Hambros Bank	6	●United Bk of Kuwait	6
Bank of Scotland	6	Heritable & Gen Inv Bk.	6	Unity Trust Bank Plc	6
Barclays Bank	6	●Hill Samuel	6	Western Trust	6
Brit Bk of Mid East	6	C. Hoare & Co	6	Whiteaway Laidlaw	6
●Brown Shipley	6	Hongkong & Shanghai	6	Wimbledon & Sth West	7
CL Bank Nederland	6	Julian Hodge Bank	6	Yorkshire Bank	6
Citibank NA	6	●Leopold Joseph & Sons	6		
City Merchants Bank	6	Lloyds Bank	6		
Clydesdale Bank	6	Meghraj Bank Ltd	6		
The Co-operative Bank	6	McDonnell Douglas Bk.	6		
Coutts & Co	6	Midland Bank	6		
Credit Lyonnais	6	Mount Banking	6		

● Members of British Merchant Banking & Securities Houses Association

STOCK INDICES

	Aug 27	Aug 26	Aug 25	Aug 24	Aug 23	Aug 20	1993 High	1993 Low	Since Compilation High	Since Compilation Low
FT-SE 100	3100.6	3079.2	3079.2	3049.3	3042.0	3057.6	3100.6	2737.6	3100.6	986.9
FT-SE Mid 250	3513.3	3494.7	3495.6	3474.2	3467.4	3482.4	3513.3	2876.3	3513.3	1379.4
FT-SE-A 350	1552.2	1542.0	1542.1	1528.4	1524.9	1532.4	1552.2	1348.7	1552.2	684.5
FT-A All-Share	1537.57	1527.83	1527.88	1514.44	1510.98	1518.01	1537.57	1095.13	1537.57	61.92
FT-SE Eurotrack 100	1306.15	1298.46	1310.93	1296.82	1291.83	1297.31	1310.93	1063.02	1310.93	900.46
FT-SE Eurotrack 200	1397.66	1384.05	1385.62	1375.46	1374.00	1380.12	1397.66	1144.79	1397.66	938.62
FT Ordinary	2413.0	2393.5	2394.3	2373.5	2373.4	2384.1	2413.0	2124.7	2413.0	49.4
FT Government Secs.	102.16	101.46	101.63	101.51	101.66	101.77	102.38	93.28	127.40	49.18
FT Fixed Interest	124.03	123.80	123.96	123.97	123.97	124.27	124.54	108.67	124.54	50.53
FT Gold Mines	188.3	193.5	197.0	199.0	197.8	197.7	249.2	80.0	734.7	43.5

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS - Cont.

BRITISH FUNDS - Cont.

OTHER FIXED INTEREST

Continued on next page

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

AMERICANS

	Notes	Price $	Wk% change	Div gross	Dividends paid	Last xd	City line
Abbott Labs		17[illegible]xd	0.5	68c	FeMyAuNv	12.7	1503
Allegheny S W	♥	621p	-4.0	30c	-	-	-
Amdahl		325p	-0.3	5c	NvFeJnAu	31.1	-
Amer Cyanamid		34[illegible]	1.8	$1.75	MrJeSeDe	4.3	-
Amer Express		31[illegible]xd	-1.1	$1.00	FeMyAuNv	5.7	1594
Amer T & T		40[illegible]xd	3.9	$1.32	FeMyAuNv	25.6	1597
Ameritech		55[illegible]	4.5	$3.68	FeMyAuNv	28.3	-
Anheuser-Busch		31	-4	Q$1.44	MrJeSeDe	4.8	1620
BankAmerica		30[illegible]xd	1.2	$1.40	MrJnSeDe	17.8	1744
Bankers NY		52[illegible]xd	-1	$3.12	ApJyOcJa	24.12	1745
Bell Atlantic		40[illegible]	9.4	$2.68	FeMyAuNv	4.7	-
BellSouth		37[illegible]	2.9	$2.76	FeMyAuNv	5.4	-
Bethlehem Steel	♥	9[illegible]xd	-7	-	MrJeSeDe	6.2	1821
Bowater		1380pxd	2.7	60c	OcJaApJy	9.3	1834
CPC		29[illegible]xd	-1.4	$1.28	JaApJyOc	25.6	2283
California Engy		1135p	-3.6	-	-	-	-
Chase Manhattan		22[illegible]xd	13.4	$1.20	FeMyAuNv	27.7	2109
Chrysler		28[illegible]xd	1.6	60c	ApJyOcJa	15.6	2135
Citicorp		22[illegible]	0.5	-	-	23.10	2141
Colgate-Palm		34[illegible]xd	-5	$1.44	FeMyAuNv	21.7	2194
Cont'l Bank		1814p	1.9	60c	DeMrJeSe	31.5	-
Dana		35[illegible]xd	-1.2	$1.60	MrJeSeDe	27.8	2308
Data General		610p	0.7	-	-	-	-
Decora Inds	♥	164p	-4.2	-	-	-	-
Dun & Brad		41[illegible]	4.1	$2.44	MrJeSeDe	13.2	-
Eaton		31[illegible]	2.0	$1.20	FeMyAuNv	2.2	3410
Echlin		12[illegible]xd	-3.9	70c	JaApJyOc	30.8	3046
FPL		25[illegible]xd	-2.8	$2.49	MrJeSeDe	23.5	-
Ford Motor		34[illegible]xd	2.0	$1.60	MrJeSeDe	28.7	2615
Gen Elect		65[illegible]xd	1.9	$2.52	JaApJyOc	3.8	2575
General Host	♥	480p	5.5	34c	-	13.12	-
Gillette		35[illegible]xd	-3.4	84c	MrJeSeDe	28.7	2685
Hasbro		20[illegible]	----	24c	FeApJyNv	1.8	-
Honeywell		25[illegible]xd	-1	88c	MrJeSeDe	24.8	2919
Houston Inds		30[illegible]	2.0	$3.00	MrJeSeDe	10.11	-
Ingersoll-Rand		25xd	3.1	70c	MrJeSeDe	17.8	2979
Lockheed		40[illegible]	-3.6	$2.12	MrJeSeDe	15.2	-
Lowe's		2843p	-2.3	32c	JaApJyOc	11.7	-
Maxxy Technology		301p	5.6	-	-	-	-
Merrill Lynch		62[illegible]xd	3.7	$1.40	FeMyAuNv	30.4	3351
Morgan (JP)		50xd	2.3	$2.40	JaApJyOc	16.6	3415
Morris (Philip)	♥	31[illegible]xd	-5.3	$2.60	JaApJyOc	10.6	5161
NYNEX		59[illegible]	[illegible]	$4.72	FeMyAuNv	27.8	4740
Pall		11[illegible]	[illegible]	32c	FeMyAuNv	24.1	-
Pennzoil		46[illegible]	7.7	$3.00	MrJeSeDe	28.8	3630
Quaker Oats		44[illegible]	-2.5	$1.92	JyOcJaAp	22.6	3733
Questar		174p	[illegible]	-	-	-	2416
Rockwell		24xd	3.3	$1.00	MrJeSeDe	11.8	3847
Rep NY		35[illegible]xd	0.4	$1.08	JaApJnSe	10.8	3214
Sears, Roebuck		34[illegible]xd	-3.3	$1.60	JaApJyOe	26.8	5191
Sthwestern Bell	h	28[illegible]	3.3	$1.51	MyAuNvFe	4.7	-
Sun Co		16[illegible]xd	1.7	$1.80	MrJeSeDe	8.8	4135
Tenneco		35[illegible]xd	2.8	$1.60	MrJeSeDe	30.8	-
Texaco		43[illegible]xd	2.7	$3.20	MrJeSeDe	4.8	4300
Time Warner		26[illegible]xd	4.6	32c	MrJeSeDe	19.8	4234
Unilab	♥	422p	-12.3	-	-	-	-
US West		30[illegible]	3.4	$2.14	FeMyAuNv	14.4	-
Varity		2565p	6.5	-	-	11.77	-
WMX Technologies		20xd	-1.2	60c	ApJyOcJa	11.6	4459
Whirlpool		4551pxd	6.5	$1.22	MrJeSeDe	4.3	-
Woolworth	♥	16[illegible]	-2.0	$1.16	MrJeSeDe	26.1	4540

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INVESTMENT TRUSTS - Cont.

INVESTMENT COMPANIES

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

Europa Mnls	38		-	-	-	-	3427
Geevor Expl	11		-	-	-	-	-
Greenwich Res	18½	3.3	-	-	-	-	2773
Hamlo Gold C$	87¼					8.11	-
Jeemla West	42		-	-	-	-	-
Kalla Mnls	13	8.3	-	-	-	-	3741
Kenmare	9¼	-2.6	-	-	-	-	1453
Malinga Res	8½	13.3	-	-	-	-	-
Navan Res	94¾	-6.8	-	-	-	-	1185
5pc Ln Notes	94¾		-	-	-	-	-
Oryx Gold	78½		-	-	-	-	3886
Ovoca Res	8		-	-	-	-	1470
RTZ	734	5.5	18.6	1.3	Dec Aug		

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♦ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ‡ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially UK listed; dealings permitted under Rule 535(2)
- § Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend; cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT.

z Dividend includes a special payment; Cover does not apply to special payment. E Auction basis. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1992-93. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94.

N Dividend based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1250 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Dunedin Japan Inv Ord & Wrts (Inv Trusts) and Sharelink Inv (Other Financial). Deletions: Securiguard (Business Services).

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close August 30

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg'ge Prev. Close
14⅝	11½	AAR Corp	0.48	3.6	62	92	13⅞	13¼	13¼	
29⅞	13¾	A L Labs A	0.18	1.0	37	51	18½	18⅜	18½	-⅛
65⅞	54⅝	AMP Inc	1.60	2.5	22	1069	65¼	64½	64⅝	-⅛
72¾	55½	AMR			17	2334	68¼	66¼	66⅞	-½
3⅞	1¼	ARX			17	441	3	2⅞	3	+⅛
51½	29⅞	ASA	2.00	4.6	22	306	44⅛	43⅝	43⅞	+¼
30¾	22⅝	Abbott Lab	0.68	2.6	16	4777	26⅛	25⅞	26¼	+⅛
12⅝	8½	Abitibi Pr	0.50	5.2	4	2100	9⅝	9⅝	9⅝	
16¾	8¼	Acapincalo			45	99	14½	14⅜	14½	
36	25½	ACE Ltd	0.40	1.2		629	34⅝	34⅛	34⅝	+½
12	10¾	ACM Gvt In	0.96	8.4		942	11⅜	11⅛	11⅜	+⅛
10	9⅛	ACM GvOpp	0.80	8.3		57	9⅝	9⅝	9⅝	+⅛
9⅞	8¾	ACM Gvt Sp x	0.80	8.4		358	9½	9¼	9½	+.92
11⅝	10½	ACM Gvt Se	0.96	8.7		448	11⅛	10⅞	11	
11⅝	9⅝	ACM Man	1.08	9.4		102	11½	11⅜	11½	+⅛
9⅞	8⅝	ACM Managd	0.72	7.8		149	9¼	9⅛	9¼	
12⅝	7¾	Acme Cleve	0.44	4.6	12	534	9½	9½	9½	-⅛
9¼	6½	Acme Elect			50	32	7⅛	6⅞	7⅛	+⅛
25⅞	18⅞	Acordia	0.44	1.7	15	32	u25½	25¼	25½	+½
16	10⅜	Acuson			32	368	11⅝	11½	11⅝	
21¾	19	Adams Exp	0.48	2.4	1	379	20	19¾	19¾	
66¼	45½	Ad Micro	3.00	4.7		615	63⅝	62¾	63⅞	
32¼	17⅝	Ad Micro P	3.00	9.5	12	3343	31⅝	31⅛	31½	+⅛
7¾	5½	Advest Grp	0.16	2.2	12	99	7¼	7	7¼	+⅛
24¾	16⅛	Advo Inc	0.09	0.5	19	47	17¾	17½	17¾	
49⅞	41⅛	Aegon ADR	2.95	5.9	10	280	u49¾	49	49⅝	+⅞
60½	43⅞	Aetna Lf	2.76	4.7	41	1650	59⅛	58	59¼	+⅛
14½	11½	AHI A	0.28	1.9	29	1107	14	14	14	+½
33⅞	28⅛	Aflac	0.40	1.2	16	339	33	32½	33	+¼
22⅛	16¾	Ahmanson	0.88	4.5	22	2290	19½	19¼	19½	-⅛
7¾	4	Aileen Inc			5	117	4⅞	4¼	4⅞	
48½	37½	Air Pr Chm	0.82	2.7	17	569	44⅛	d24⅞	43⅝	
26½	18⅝	Airbna Frt	0.30	1.3	30	921	23	22½	23	-⅛
37½	18¼	Airgas Inc			40	144	38⅝	38¼	38⅝	+½
15⅜	10½	Airlease	1.60	10.8	11	18	14⅞	14¾	14¾	-⅛
105½	101	AlaPw8.16	8.16	7.8		z100	105	105	105	
107	102½	Alab 8.28C	7.28	6.9		z30	104¾	104¾	104¾	
18	12¾	Alaska Air	0.20	1.5	2	434	13⅛	12⅞	13	+⅛
19	14¼	Albany Int	0.35	1.9	62	14	18¾	18⅝	18¾	-⅛
26¼	20⅞	AlCulvr B	0.26	1.2	15	36	21⅛	21	21	-⅛
25⅛	17	AlCulvr A	0.26	1.4	13	182	19¼	19	18	+⅛
58½	46¾	Albertsons	0.72	1.3	21	1968	56	54⅞	56	+⅝
21⅝	16⅞	Alcan Alum x	0.30	1.4	32	2077	20¾	20½	20¾	+⅛
50⅝	35¾	Alco Stand	0.96	2.1	19	642	45⅝	45⅜	45⅝	+⅛
38⅛	19⅝	AlexBrown	0.60	2.2	6	341	27⅛	27	27⅛	+⅛

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

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- F -

[illegible]

- G -

[illegible]

- H -

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- I -

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- J -

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- K -

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- L -

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- M -

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- N -

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- O -

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- P - Q -

[illegible]

- R -

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Continued on next page

4 pm close August 30

NYSE COMPOSITE PRICES

Continued from previous page

- S -

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
22	15½	S Anita Rt	1.38	7.8	15	245	17½	17⅜	17⅜	
20¾	14⅞	SCOR US Cp	0.32	2.0	198	243	15⅞	15¾	15⅞	
29¾	20	SPS Techno	1.28	4.5	20	14	28¼	28	28¼	
14½	12⅞	Sabine Rt	1.80	12.3	10	73	u14⅝	14¼	14⅝	+⅛
13¾	8⅞	Salacard	0.20	1.6	72	93	13	12¾	12⅞	
23½	16⅞	Safeg'd Sc			10	61	22	21⅞	21⅞	-⅛
24⅞	14⅞	SafetyKln	0.36	2.3	24	1122	15¾	15⅜	15¾	+¼
18⅜	10⅞	Safeway			29	1453	u18⅞	18⅜	18⅝	+⅛
4⅛	2	SafewayWt96				499	u4½	4	4⅛	+⅛
55	37½	StJoePaper	0.20	0.4	151	380	51⅞	50¾	51⅝	+⅞
37⅞	31	StJosLtP	1.76	4.7	15	12	37⅝	37⅜	37⅝	-⅛
91⅝	75	St Paul's	2.80	3.1	14	865	90½	90	90½	+¼
11⅞	7⅞	Salant Crp			4	10	8⅝	8⅝	8⅝	-⅛
75¾	39⅞	Sallie Mae	1.20	2.6	10	755	46¼	45⅛	46	+⅜
14¾	13	Salomon Br	0.32	2.3		384	14⅛	14	14	
50	34	SalomonInc	0.64	1.3	12	1856	49½	49¼	49½	
27	23¾	SanDgo G&E	1.48	5.4	14	603	u27¼	26⅞	27¼	+¼
4⅜	3½	SantaFeEDu	0.40	10.3	38	55	3⅞	3¾	3⅞	
11⅞	9⅛	SantaFeERs	0.16	1.6	12	2583	10¼	10⅛	10¼	
40¾	35⅜	SantaFePac	2.80	7.4	13	84	38⅛	37½	38	+½
19	12¾	SantaFPac	0.10	0.5	12	3181	18¾	18⅝	18¾	
31⅛	21	Sara Lee	0.56	2.2	18	6238	26¼	26	26⅛	+⅛
51⅞	40⅛	Scana Corp	2.74	5.4	15	226	51	50⅞	51	-⅛
24⅞	21½	Scecorp	1.42	5.7	15	2389	u25	24⅞	24⅞	
38⅞	23⅞	SchererRP			22	145	28	27½	27⅞	-⅛
70⅞	51¾	ScheringPl	1.80	3.0	15	4165	61⅛	60	60⅞	+1
68⅞	21⅞	Sch'berger	1.20	1.8	25	1985	65¾	65¼	66⅛	+¼

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Telekurs

AMEX COMPOSITE PRICES

4 pm close August 30

NASDAQ NATIONAL MARKET

4 pm close August 30

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S - - T - - U - - V - - W - - X - Y - Z -

THE FT INTERVIEW

Germany's young pretender

Rudolf Scharping, leader of the opposition Social Democrats, speaks to **Quentin Peel**

Camera Press

On the wall of the state premier's office in Mainz, capital of Germany's Rhineland-Palatinate, hangs a large and rather faded Gobelin tapestry. It has been there since the days when Mr Helmut Kohl, German chancellor, was the first man in the *Land*.

I confess that I don't find it very beautiful," says Mr Rudolf Scharping, the current incumbent of the office. "I'm planning to replace it with this," he says, producing from behind his desk an austere but striking Andy Warhol original, recently presented by a friend.

The painting features three champagne glasses, two of them overturned, one upright. "It seems rather appropriate," he says.

Just so. For Mr Scharping emerged in June as the clear victor in a three-way race for the leadership of Germany's opposition Social Democrats. Since then he has moved rapidly to consolidate his position, persuading his principal rivals to back him as party candidate for Chancellor.

The fact that he has still not quite set his personal seal on his office in Mainz, since he defeated Mr Kohl's Christian Democratic Union in state elections in April 1991, is also perhaps appropriate. For his sights are now set on Bonn, and the race to displace Mr Kohl in next year's national elections.

It is going to be an uphill struggle, the young pretender against the old campaigner. The SPD has been floundering in the opinion polls, locked in inner-party debates, and shaken by the resignation of its former leader, Mr Bjö rn Engholm, because of a local political scandal, just when it should have been leading the CDU. The economy is in the doldrums: unification, Mr Kohl's great achievement, is proving painful in both east and west: and Mr Kohl himself, in office for 11 years, is blamed for lack of leadership.

Yet Mr Scharping, dapper, neatly-bearded and articulate, but uninspiring in delivery, immodestly sees his own election as SPD leader – in the first poll of grassroots party members – as a potential turning-point. He could be right.

"The SPD is suddenly more hopeful," he says. "June 13 (the day of the leadership poll) was a great relief. All this discontent and anxiety, if not completely wiped out, has at least become much less important. Now we must try to use this new enthusiasm."

He has to overcome the natural inclination of the left-wing Social Democrats to self-destruct in internecine warfare; to counter the impression that social democracy has no role, since the collapse of communism; and to shake-off an immediate inclination of the media to label him as a mini-Helmut Kohl – a cautious man of consensus and career politician, leading from behind.

Since June he has shown he can act decisively, swiftly appointing an election team to unite the the party.

Now he has to deal with the issues, and raise his public profile. It is easier said than done. Last week he suffered his first reverse, when his party colleagues refused to back a move to relax their objections to the Bundeswehr (military) becoming a full participant in UN operations.

"It is embarrassing," he admits, "but it is also absurd that a significant part of our whole debate on foreign relations should be concerned exclusively with military matters: that is a dangerous limitation. A foreign policy which fails to keep focused on the economic, social and political stabilisation of eastern Europe, which loses sight of the north-south divide, and therefore loses sight of the real causes of worldwide migration of peoples, that is no foreign policy at all."

He argues that the answer lies in strengthening the UN itself. "As it gets stronger, and its activities become UN activities, and not merely the extended arm of a single member state, then it will be easier to see its activities as part of a genuine common security. That is a concept the SPD has always had in mind."

The next tough issue he has to deal with is the question of curbing the explosion of social welfare costs. He knows that his party cannot continue simply to oppose all cuts in social spending, at a time when the budget deficit, fuelled by the costs of unification, is soaring.

"The government is trying to cut social spending at the expense of the people who can least afford it, the homeless and the unemployed," he says. "That is unacceptable. It won't create more jobs or houses. We

'The SPD is suddenly more hopeful'

need to ask what payments are necessary, which people need them, and at what income level should they be paid." That means more means testing.

As a state premier responsible for attracting investment to his own area, he is acutely conscious of the debate over the high costs, and declining competitiveness, of Germany as an investment location. He does not think the answer lies in going back to a 40-hour week.

PERSONAL FILE

- **1947** Born Niederelbert in the rural Westerwald
- **1966-74** Studied political science, law and sociology at Bonn university.
- **1966** Joined SPD. Became state chairman and national deputy chairman of Jusos (Young Socialists).
- **1975** Elected to state parliament of Rhineland-Palatinate.
- **1985** Party leader of SPD in Rhineland-Palatinate.
- **1987** Defeated in state elections: opposition leader.
- **1991** Election victory ends 44 years of Christian Democrat rule in Rhineland-Palatinate.
- **1993** Victor in ballot for national party leader of SPD. Confirmed at party congress.

He does think there should be far more flexibility.

"Some international companies are much more imaginative about this than the political establishment," he says, citing the example of IBM in Mainz.

He sees the idea of "social dumping" – seeking to attract new investment by offering lower wage costs, including social costs, to companies – as self-defeating. "It won't work in Germany, France, the Benelux countries or Great Britain," he says.

He wants the Maastricht treaty put into effect, and he wants Britain to sign on to the social chapter. "But I don't have any advice to give," he insists. "Britain must decide for itself." As for economic and monetary union, "Nobody in Europe should make themselves slaves to a timetable."

What European co-operation needs to focus on is joint action to tackle the technological deficit. "I remember 15 years ago books appeared in the US calling Europe the sclerotic continent. We were dying of old age, and would perish. It has not happened.

"But I am in favour of the Europeans discovering their common interests. One problem we all share is that in product innovation we must make greater efforts. We should do that together. Our key industries of the future, like micro-technology, computers, electronics, genetic technology and bio-technology, are too weak. We cannot just sit back. If we do, we will learn very painfully that these strengths can be acquired by others, too."

Mr Scharping's predecessor as SPD leader, Mr Engholm, was probably more telegenic. He was also an instinctively gloomy, pipe-smoking northerner. Mr Scharping doesn't fiddle with a pipe. Instead, he sits calmly eating a peach in the middle of the interview.

Unlike Mr Engholm, he also knows the dangers of excessive pessimism. It lost the SPD the last election, because they spelt out the costs of unification all too bluntly.

"There are far too many people in Germany who just talk in terms of tasks and problems and difficulties, and not about opportunities and challenges," he says. "I don't underplay the problems, but for me, unification is not just an historic opportunity, it is also an extraordinary challenge.

"That should not prevent one saying what needs to be done, in order to turn that opportunity into reality. Most people who vote in elections are voting for a hope, for a vision of a future, not a reckoning with the past. It's the job of the SPD to give a realistic hope for the future."

The media is obsessed with the likelihood of Scharping and Kohl working together in a grand coalition after the next election. But the SPD man won't be drawn. "The chances are very small," he says. "The polls don't tell us much about what could happen next year. If I believed the polls I would never be sitting here.

"Things will only get better in Germany if the SPD gets stronger. That is what I am concentrating on right now. Whoever eventually may offer to help the SPD take power, that can be decided after the next elections."

Read Clinton's lips: No more welfare

MICHAEL PROWSE on AMERICA

President Bill Clinton's pledge to "end welfare as we know it" was one of the most popular lines in last year's election campaign. His idea of a strict two-year time limit on welfare cheques appealed to voters (especially "Reagan democrats") not just as a way of cutting government spending and thus reducing taxes, but as a solution to the nation's most pressing social problems.

In the American mind, welfare has become synonymous with such evils as urban decay, fatherless children, drug abuse and violent crime. By promising radical welfare reform, Mr Clinton was sending a powerful subliminal message: he would wage war on all the diseases that are ravaging urban society.

Since becoming president, Mr Clinton has barely mentioned the word welfare, raising fears that his grandiose promise will prove as cynical as former President George Bush's "read my lips: no new taxes" pledge.

The White House insists that welfare reform is not forgotten but has just had to take its turn behind two even more urgent priorities: the deficit reduction plan finally approved this month and the healthcare reform scheduled for September. It claims both measures will help shift people off welfare by "making work pay."

The budget advanced this cause by expanding the earned income tax credit (a kind of negative income tax). This gives poor working families a cash bonus of up to $2,500 a year, increasing the incentive to take low paid jobs. If healthcare reform guarantees health insurance for all workers, welfare recipients will no longer be able to reject jobs on the grounds that they stand to lose their health care benefits.

In addition, the administration promises to bolster the economic position of welfare mothers by strictly enforcing laws requiring absent fathers to support their children financially.

Such measures should help. But they are hardly going to solve America's welfare problem, which differs substantially from that in Europe.

In keeping with Franklin Roosevelt's dictum that a permanent dole is "a narcotic, a subtle destroyer of the human spirit", the US has never provided permanent welfare support for single, able-bodied adults. When pundits talk of a "culture of welfare" they are referring mainly to the $20bn spent on Aid for Families with Dependent Children, a benefit received by 5m single-parent families. The objection is not that some families in straitened circumstances need AFDC as a short-term prop, but that half of those on welfare behave as though they have a meal ticket for life.

So what should Mr Clinton do?

Many conservatives favour the concept of a strict time limit. Once people accept that benefits are not going to be paid indefinitely, they argue, behaviour will change. Teenagers will stop having babies and start recognising the economic advantages of marriage. Those whose welfare benefits expire will face a stark choice: accept low-paid employment or hand over children for adoption. At first the adjustment will be horribly painful but in the longer term society will gain enormously because destructive lifestyles will no longer be underwritten. With its economic life support system (welfare) ripped away, the underclass will shrivel.

But no modern president would contemplate so brutal a social experiment. If welfare stops, something has to take its place. One suggestion is that Mr Clinton should follow the example of Roosevelt's Works Progress Administration, an agency that at its peak created over 3m public sector jobs. After two years, welfare cheques would thus be replaced by the offer of a government job at slightly below the private sector minimum wage. Mothers with young children would also be offered state child care facilities. According to one advocate, this would amount to replacing the welfare state by the "work ethic state".

This solution is more appealing than a mere cessation of benefits. But it would involve a huge expansion of public sector employment and cost perhaps $50-60bn a year, far more than the Clinton administration is willing to spend on welfare reform.

Fortunately there is a fall back position for Mr Clinton: the bipartisan Family Support Act of 1988, which he helped steer through Congress. This recognised the impossibility of ending welfare overnight and instead set targets for the gradual introduction of "workfare". Next year states will receive federal assistance only if they ensure that at least 15 per cent of the "employable" welfare case load is working or in training programmes; by 1995 the required ratio rises to 20 per cent. These seemingly undemanding targets require a much larger fraction of the welfare population to take jobs at some point during the year.

Mr Clinton could tighten the definition of "employable", so as to include mothers with children under the age of three, and set more demanding workfare participation targets, for example that 50 per cent of welfare recipients should be working or in training by the year 2000. Such a gradualist approach would be both humane and cost effective. The only trouble is that it falls far short of the presidential promise to "end welfare as we know it". Like Mr Bush, Mr Clinton may have raised expectations that simply cannot be met.

China's wounded spirits

It is Saturday night in a gloomy Beijing hall. Dozens of men and women line the walls, observing and chatting while a few couples waltz to the music of Strauss.

This is a Beijing singles club, and the atmosphere could hardly be further removed from the raucous *karaoke* bar culture that has mushroomed in Chinese cities: nor does the scene bear much relation to the image of modern China projected by the media.

To an extent, the club is a casualty ward of the enormous social change sweeping China that is producing its share of wounded spirits and broken dreams. Madam Wen, a 37-year-old accountant, becomes tearful as she explains that, after 12 years of marriage, her husband has abandoned her for another woman. "Traditional values are being swept away," she says.

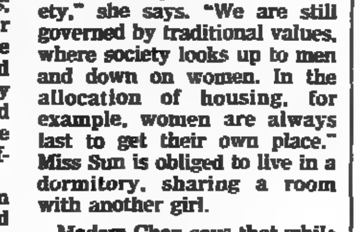
Madam Wang Xingjuan, a women's activist and founder of the Beijing singles club, believes that, while economic liberalisation and opening to the outside world have brought many benefits to China, some women have been victims of change.

For a start, the divorce rate has gone up sharply, especially in urban centres like Beijing, rising from 2.1 per cent of marriages in 1981 to 17.7 per cent in 1992. Nationally, marriage failures reached 8.7 per cent last year, low by international standards, but a big increase on previous rates and still rising.

One of the main causes of the rapid increase in the divorce rate, according to Madam Wang, is growing affluence, which is loosening family bonds. "Men are better off and are looking for lovers. They are losing their sense of responsibility," she says. "They are being influenced by western television programmes with their sexy scenes. Extramarital sex is commonplace."

Prostitution on a fairly big scale has also returned to Chinese cities, perhaps further complicating family relationships. According to Madam Wang, some 200,000 prostitutes were detained last year throughout China, but she estimates that numbers of prostitutes nationwide exceed 1m.

Reaction to a National Women's Hot Line reveals a widespread desperation among urban women over the enormous change in their lives. While life might have been fairly drab in the past, there was more certainty, more stability.



Forty per cent of callers wish to talk about marriage problems, including divorce. Madam Wang and her assistants urge conciliation, but if the marriage has broken down irretrievably they advocate divorce, which has become much simpler in China since the passage in 1980 of a new divorce law.

Previously, social and political pressures, plus the difficulty of securing legal approval for a divorce, had condemned many unhappy couples to stay together. During the Mao era divorce was denounced as bourgeois, and the careers of those who dared to separate were jeopardised.

Madam Chen Yiyun, a sociologist with the Chinese Academy of Social Sciences and one of China's leading researchers on women's issues, says that, before China's opening to the outside world in 1978, there were basically two categories of women: urban and rural. Now she identifies four types of urban women.

These include those who have gone into business themselves or who work for joint venture companies; middle-aged women who are relatively uneducated and who have most difficulty coping with change; professional women who are established and do not feel threatened by the changes; and older women whose marriages and lives are fairly settled, and therefore are relatively unaffected.

It is women in the second category who are proving most vulnerable. "Many of these middle-aged women feel lost and confused," says Madam Chen. "Many have worked in state-run factories, but have been fired. It's very hard for them to find a job, and start a new life." Estimates suggest there are 20m excess labourers in Chinese factories, 70 per cent of whom are women.

Another problem in urban Chinese society is the surfeit of well-educated single women, and this in turn is adding to pressures on existing families. This excess of women in their 30s and early 40s can be attributed to several factors, among them that many young men sent to the countryside in the 1960s during the Cultural Revolution never returned to the cities. Thousands of men have also drifted away from cities like Beijing to make their fortunes in the booming southern coastal towns like Shenzhen and Hainan island.

Of the 1,000 members of the Beijing singles club, 60 per cent are women, and almost all are professionals. Most, if not all, are looking for a husband. Typical is 39-year-old Miss Sun, a magazine editor, who feels under pressure from her family to marry, but has been unable to find the right man.

"The situation is difficult for women today in Chinese society," she says. "We are still governed by traditional values, where society looks up to men and down on women. In the allocation of housing, for example, women are always last to get their own place." Miss Sun is obliged to live in a dormitory, sharing a room with another girl.

Madam Chen says that while it seems that men have benefited from the radical changes in Chinese society more than women, many men are feeling stressed by the pressures of the new consumer age.

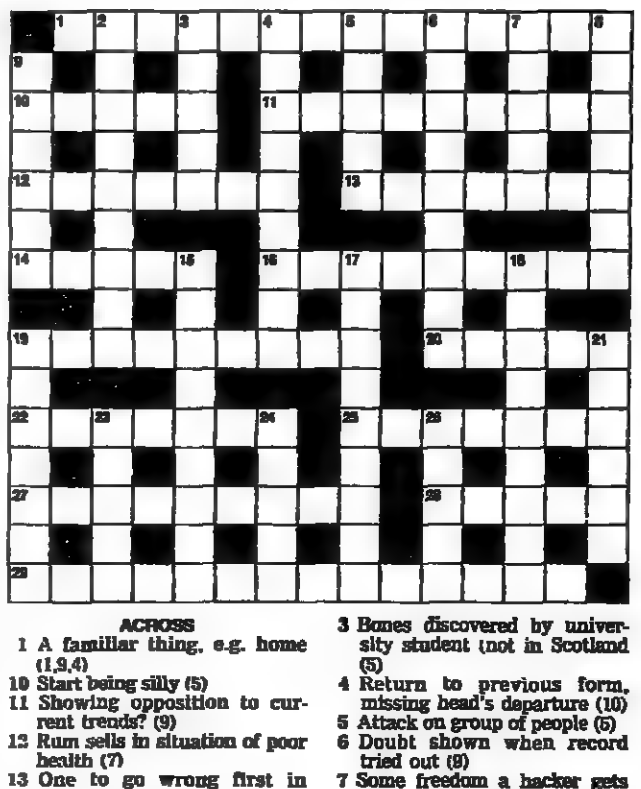
"You get so much, earn so much, but you also sacrifice so much," she says. "Men are complaining that their wives are buying more clothes and cosmetics. Before, men did not feel so pressured."

At the Beijing club each Saturday, couples in their best clothes dance on, hoping that this might be their lucky day.

Tony Walker

CROSSWORD

No.8,241 Set by QUARK



ACROSS

1 A familiar thing, e.g. home (1,9,4)
10 Start being silly (5)
11 Showing opposition to current trends? (9)
12 Rum sells in situation of poor health (7)
13 One to go wrong first in money for land (7)
14 Pick-me-up used in accident on ice ? (5)
16 I am to negotiate present (9)
19 Rescinded (doing a U-turn) and made out (9)
20 Opera cast performing (including the ring) (5)
22 Plain and endless food belt (7)
25 Shaky Revised Version following English, in short no use (7)
27 Its water rate's high (9)
28 Lowest point in a road receiving repair (5)
29 Wins everything, yet has brushes with the committee? (6,3,5)

DOWN

2 District up in Scotland (9)
3 Bones discovered by university student (not in Scotland (5)
4 Return to previous form, missing head's departure (10)
5 Attack on group of people (5)
6 Doubt shown when record tried out (8)
7 Some freedom a hacker gets in American city (5)
8 Action to recover goods held. One item turned up in river! (7)
9 Is boot specially prepared for a player? (6)
15 Became happier and showed approval in 2? (7,2)
17 Time I tend to organise as a shopgirl in Paris (9)
18 One going out of the way to avoid punishment (9)
19 One presented as English society diminishes (7)
21 Sailor's sphere to occupy the attention (6)
23 Feudal superior in Belgium (5)
24 Authority bit (5)
26 Donor rearranged piece of music (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday September 11.

FINANCIAL TIMES SURVEY

MALAYSIA

How the Proton car company has towed Malaysia towards industrialisation PAGE IV

Old Malacca is an exotic museum filled with relics of rival empires PAGE V

Tuesday August 31 1993

For five years Malaysia's GDP has grown by more than 8 per cent a year as it switched to manufacturing from a commodities-based economy. But it is now proving much harder to capture overseas investment for its next phase of expansion, reports **Kieran Cooke**

Sweet smell of success

The Proton car works is the instrument and symbol of Malaysia's rapid industrialisation and emergence as a world-class motor exporter

THE earth movers and diggers are hard at work on the old racetrack in the centre of Kuala Lumpur. A new city centre is being built which will include what is being billed as one of the world's tallest buildings - a 450 metre twin tower complex which, when completed in 1996, will be higher than New York's World Trade Centre or the Sears Tower in Chicago.

Critics say the city centre project is proof that the government of Dr Mahathir Mohamad, the prime minister, is carried away by its own economic success, full of grandiose, ill conceived, schemes.

To the government and its many supporters, the new city centre will be a monument to the new Malaysia, a country standing tall with its economy growing to join the ranks of industrialised nations.

Even the critics cannot ignore the considerable progress made in Malaysia in recent years. Overall GDP has grown by more than 8 per cent in each of the last five years.

Malaysia has been transformed from a commodity based to a manufacturing economy. In the mid 1960s tin and rubber accounted for nearly 80 per cent of export earnings. Last year the manufacturing sector accounted for 70 per cent of the value of exports.

"There is no doubt that had we remained with tin and rubber, we would be a basket case today," said Dr Mahathir recently. "Moving into manufacturing saved us."

Living standards have improved: per capita incomes have increased from $350 in 1970 to nearly $3,000 last year.

Foreign investors have poured hundreds of millions of dollars into Malaysia, attracted by the country's political stability and its generally low wage regime.

The government's goal now - called "Vision 2020" - is full industrialisation by the year 2020 - with an economic growth rate of 7 per cent in each of the next 27 years. There are few more compelling images of modern Malaysia than that of Dr Mahathir, sitting confidently in the back of his official limousine, a Malaysia made Proton car: the number plate on the car is 2020.

But there are those who question whether Dr Mahathir's vision can be turned into reality.

One of the key factors in Malaysia's recent success has been foreign investment. In 1990/91 foreign companies were investing about M$17bn ($6.6bn) per year in Malaysia, representing well over half annual total investments.

In the first six months of 1993 foreign investments were only M$1.6bn.

The continuing problems being faced by the industrialised countries is one reason for the decline in inward investment. But Malaysia is also in danger of losing out in the competitiveness stakes, particularly to the fast emerging economies in the region such as China and Vietnam.

Recently productivity has not been keeping pace with wage rises. This not only deters investors - it also jeopardises Malaysia's export competitiveness.

Dr Mahathir and his officials constantly preach the need to restrain wage increases. Union activity is strictly controlled. But having been told so often of their country's economic success, workers want to have a share of the benefits.

The situation is exacerbated by growing labour shortages which, in many industries, have become a serious impediment to further growth.

The short term solution is the government's tacit acceptance of about 1m illegal foreign workers in the country. But the long term presence of such a large group of foreigners could lead to serious social problems and upset Malaysia's delicate racial balance.

The more lasting solution proposed by the government is to go into more capital intensive, sophisticated, value added industries - much as Singapore decided to do some years ago. But while Malaysia has developed expertise in a number of fields - mainly in the commodities sector - much of its industry still lacks depth and know how.

The problems are well recognised. "Malaysia is lamentably weak in research and the application of new technology," says Dr Mahathir.

Education is a problem area. For the next phase of its development Malaysia needs an ever bigger pool of highly qualified engineers, technicians and managers. But these are not being produced in anything like sufficient numbers.

Government critics blame the New Economic Policy (NEP), introduced in the early 1970s, for many present problems. The NEP emphasised discrimination in favour of the Malays, the dominant racial group in the country. The Chinese, who make up about 35 per cent of the population, controlled most economic activity in the country. The idea was to give the Malays a greater share of the economic cake.

The policy was a partial success. According to official figures Malays controlled about 20 per cent of corporate equity by 1990.

But critics say the NEP gave rise to more problems than it solved. With Malays favoured in education, for jobs in both government and the private sector, a large measure of competitiveness was removed from the system and standards fell. Meanwhile the Chinese, Indians and other groups were made to feel like second class citizens.

The NEP is also blamed for giving rise to an uncompetitive business culture. Dr Mahathir himself frequently berates the Malays for their "get rich quick" attitude and their lack of entrepreneurial zeal.

Government policy has now changed, emphasising growth rather than discrimination as the principal means of achieving a level of economic equality between the races. But the old ways live on. In business, political connections with the Malay dominated government are often more important than commercial competitiveness.

In part economic success has helped alleviate some of the tensions between the races. But there is still a question mark over whether government policy has made Malaysia a more equal, less racially segregated society.

The Chinese still control a large slice of the country's economic life and sit on a considerable pile of capital. That capital now needs to be invested in the country's future.

The government speaks of the need to "wean" the country off foreign investment and depend more on domestic capital resources. But many Chinese remain hesitant, still wondering about their place in Malaysian society. Last year domestic investment fell by more than 30 per cent and shows signs of an even steeper fall this year.

Sensitivities about racial or political questions and a heavily government influenced media mean that there is little or no public debate on these issues. Government opponents accuse the government of sensing conspiracy in any criticism - even when things have gone obviously wrong.

In March it was revealed that Bank Negara, the central bank, had incurred a "paper loss" of about M$12.8bn ($4bn) last year, most of it due to speculations on the foreign exchange markets.

Dr Mahathir dismissed criticism of the bank's operations. Opposition calls for a full inquiry into the bank's activities were brushed aside. Yet there is no doubting the disquiet the issue caused in both the local and foreign financial community.

Sensitivity to criticism is also evident in Malaysia's dealings with the outside world. Dr Mahathir has tilted at many windmills: he continues to attack the industrialised world, the US in particular, for what he considers to be double standards on human rights and environmental questions.

Malaysia remains deeply suspicious of what it feels is a protectionist trade campaign directed against developing countries by the richer nations.

Dr Mahathir continues to lobby hard for recognition of an "East Asia Economic Caucus" (EAEC) - to counter the activities of perceived western trading blocs. Other nations in the region tend to feel Malaysia has, at times, a rather exaggerated view of its own importance and do not necessarily share Dr Mahathir's views. So far the EAEC has met with a only a guarded response.

But, hubris or not, Malaysia marches on. Its economy seems likely to grow at close to 8 per cent again this year. Kuala Lumpur's new city centre project is going ahead full steam.

Malaysia is still breathless from its first sprint up the economic ladder. But as it loses many of the competitive advantages it has enjoyed in the past, the upward climb will get considerably tougher.

☐ The National Monument in the capital, Kuala Lumpur

IN THIS SURVEY

Premier Mahathir is in no hurry to retire, but there is talk of who will succeed him, says **Kieran Cooke**

The political cauldron is simmering

IN mid July Dr Mahathir Mohamad, the Malaysian prime minister, arrived back in Kuala Lumpur after a three day official visit to Albania. The prime minister's jet touched down at 7.20am. By 9am Dr Mahathir was in his office, chairing a cabinet meeting.

Dr Mahathir, 67, sets a bruising pace. Though he had open heart surgery in 1989, the prime minister, in power for the past 12 years, shows no sign of wishing to retire. "As long as I'm welcome and the people want me, I'll serve," said Dr Mahathir in a recent interview.

Yet these days Malaysia is bubbling with talk about the succession. The political temperature is rising, the rumour mill is working overtime.

At issue are elections in November in the United Malays National Organisation (UMNO), the country's dominant political party and main grouping within the ruling Barisan Nasional (National Front) coalition government.

By tradition, the head of UMNO is also prime minister. It's very unlikely that Dr Mahathir's position as party head will be challenged in these elections. But there is an increasingly bitter battle for the posts immediately below Dr Mahathir, particularly the number two position. The theory is that whoever emerges as deputy will one day inherit the Mahathir mantle.

There are two main contenders for the position of UMNO deputy leader – Mr Ghafar Baba, the present incumbent, and Mr Anwar Ibrahim, the finance minister.

A genial, rotund man who makes no claims to great intellectualism, Mr Ghafar, 68, describes himself as "just a *kampong* (village) boy". He has been an UMNO party stalwart for many years. Look at the old black and white pictures of the early Malay leaders and Mr Ghafar is there, urging the crowds to fight for independence from British colonial rule.

More recently Mr Ghafar has proved himself as a Mahathir loyalist. Renowned for his political contacts with UMNO's traditional bedrock of support in rural areas, Mr Ghafar was used by the prime minister to build up a new, Mahathir aligned, UMNO after a party split in 1987-88.

Earlier this year Mr Ghafar was at the forefront of pushing through controversial constitutional reforms limiting the powers of the sultans, the Malay rulers.

Mr Anwar is a very different politician, said to represent the "Malay baru" – or the new breed of Malay. The finance minister, still only in his mid forties, has had a meteoric rise through the party ranks, propelled in no small way by Dr Mahathir.

He was once regarded as a firebrand and, as a former head of ABIM, the Islamic youth movement, a vocal government critic. For a time in the mid 1970s the present finance minister was detained under Malaysia's powerful internal security act.

His image has changed since those days. To visitors he is genial and relaxed, his conversation ranging from literature and music to the problems of third world debt.

But no one doubts the presence of an extremely astute and ambitious politician behind the finance minister's urbane exterior.

Mr Anwar is felt to reflect the opinions and aspirations of an increasingly powerful part of the Malay community – the urbanised, sophisticated Malays who, it is felt, will be at the forefront of the country's next economic leap forward.

The two rival successors for the key number two post have powerful support in the Cabinet

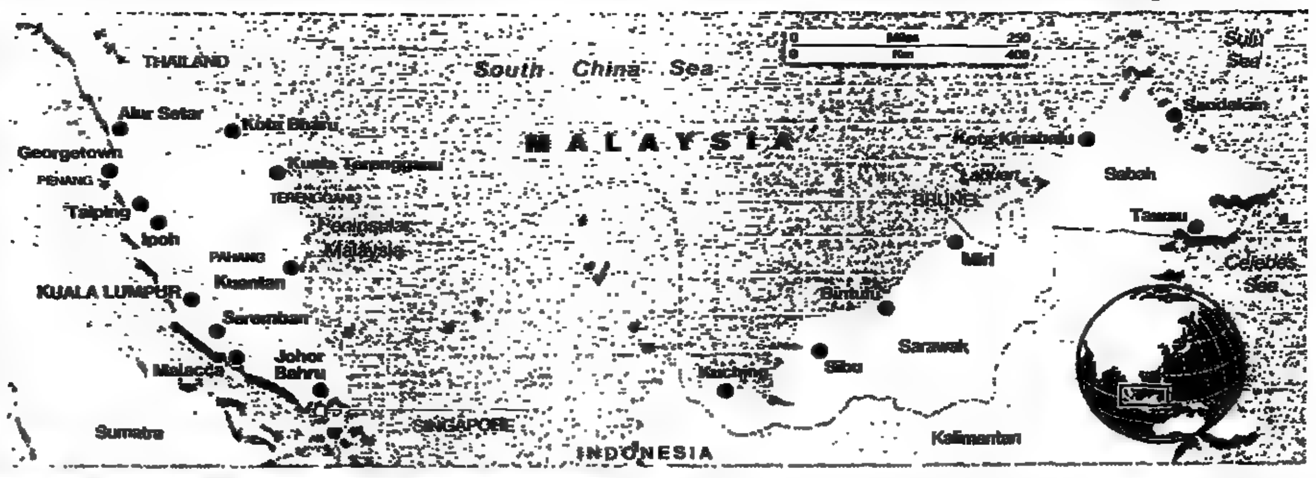
Dr Mahathir has said he would prefer if Mr Ghafar's position as party number two were not challenged in the November elections. But for once it seems the prime minister's word is not being obeyed.

Mr Ghafar's and Mr Anwar's political stormtroopers are already out in the towns and countryside rounding up support.

Some have warned of a party schism. Mr Anwar has said he is a Mahathir loyalist – but feels he must obey party sentiment and stand for election. "There will be no disunity in UMNO," said Mr Anwar announcing his candidacy earlier this month.

Meanwhile Mr Ghafar seems determined to retain his post, and with it the possibility of becoming Malaysia's next prime minister. "I don't care if anyone says that I'm not prime ministerial stuff but please don't think that I'm not qualified enough to handle UMNO's deputy presidential post or even the presidential post," says Mr Ghafar. "I have been in UMNO long enough. I know exactly what UMNO is all about. I will defend the post even if only two party divisions nominate me."

Each candidate has his powerful backers, with the older hands in cabinet generally favouring Mr Ghafar, the younger, rising stars such as the state chief ministers, backing Mr Anwar.




Dr Mahathir Mohamed: still running hard after 12 years in power

At a rally in Kuala Lumpur about 8,000 turned up to voice support for Mr Ghafar. Less than friendly words are being exchanged between the two sides. There is open talk of "money politics" with funds being used to influence delegates' voting patterns. Mr Anwar, in particular, is charged with accumulating a vast monetary war chest to further his cause – a charge he vigorously denies.

But it is clear that the impact of these elections is being felt well outside UMNO ranks. Politics and business have long been closely related in Malaysia. Though the UMNO leadership denies party involvement in business, the party is immensely rich. Brokers – and corporate leaders – talk openly of "UMNO connected companies". Stock market analysts look as much at who is in or out of political favour as they do at company balance sheets in assessing market performance.

There are many Indians and Chinese but only the Moslem Malays will decide the premiership

Race remains a key factor in Malaysia's political life. To an outsider it might appear strange that UMNO – a party which is, as its name implies, strictly Malay – is alone deciding who will run the country. The Chinese, Indians and other races, who together make up nearly 50 per cent of the population, are not involved in the process.

The Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC), are UMNO's main partners in the Barisan Nasional. But neither party has much political clout.

"If you are a rich or ambitious Chinese or Indian you don't get involved with MCA or MIC politics," says a local academic. "Instead you quietly seek to align yourself with the main forces in UMNO – and give generously to UMNO party funds."

Opposition is limited to the Democratic Action Party (DAP), headed by veteran Chinese politician Mr Lim Kit Siang, and remnants of the old UMNO headed by Mr Razaleigh Hamzah, once a close colleague of Dr Mahathir, but now a fierce critic.

The Barisan Nasional has 127 of the 180 seats in the lower house of parliament and the opposition parties can do little but snipe at Dr Mahathir's government.

The DAP says there is an increasingly undemocratic trend in Malaysia, citing Dr Mahathir's enthusiasm for tinkering with the constitution as evidence that the basis of the country's democracy is being undermined. The DAP has also been forthright in attacking what it considers to be the increasingly cosy relations between senior government figures and leading business-people.

The Barisan Nasional faces a more formidable opposition threat at state level – in the northern state of Kelantan, where the strongly Islamic Parti Islam Malaysia (PAS) holds power, and in Sabah in East Malaysia, which is controlled by the Parti Bersatu Sabah (PBS).

Dr Mahathir remains deeply suspicious of any opposition to his rule and has made considerable efforts to undermine both PAS and the PBS. But in deeply conservative Kelantan PAS remains strong. In Sabah, some senior politicians formerly aligned with UMNO have switched to join the PBS.

While not a direct threat to the Barisan Nasional's rule, such developments are worrisome for Dr Mahathir's government. Many analysts forecast an early general election being called in the first half of next year: UMNO would not only seek to renew Dr Mahathir's mandate but also to unite the party after what many fear will be a bruising and divisive internal election contest.

Dr Mahathir himself tries to play down the intensity of political feeling within UMNO. "It might look like a bubbling cauldron of political activity but I don't think it's all that bad," he said.

"We (in UMNO) are quite rational people. We have been quite rational all this while. We don't have that kind of very violent antagonism towards each other or total inability to work with each other," said Dr Mahathir.

Not everyone would agree.

KEY FACTS

Area	332,965 km²
Population	18.6m (mid-1992)
Head of State	King, Sultan Azlan Shah
Head of Government	Prime Minister Mahathir bin Mohamad
Currency	Ringgit,also known as Malaysian dollar
Average exchange rate	1992:2.55 per US$; currently=2.5537[1]

ECONOMY	1992	Latest
Total GDP (US$bn)	55.02	n/a
Real GDP growth (%)	8.0	8.1[2]
GDP per capita ($)	2,960	n/a
Components of GDP (%)[3]		
Private consumption	51.5	
Gross fixed investment	34.4	
Government consumption	13.5	
Exports	78.4	
Imports	77.3	
Consumer price inflation	4.7	3.2[1]
Manufacturing wage inflation	9.0	10.0[1]
Ind. production (% change pa)	8.7	8.1[1]
Unemployment (yr end % of lab force)	4.1	4.0[5]
Reserves minus gold ($bn)	19.4	18.9[4]
Prime lending rate (% pa end period)	9.5	8.75[4]
Narrow money growth (% pa)	9.5	n/a
Broad money growth (% pa)	19.1	n/a
FT-A index (% change over year)	35.8	40.63[7]
Gen govt. balance (% of GDP)	-2.5	-3.4[8]
External public debt (% of GDP)	38.0	n/a
Current account balance ($bn)	-1.7	-0.9[9]
Exports ($bn)	39.7	44.0[1]
Imports ($bn)	36.9	40.2[9]
Trade balance ($bn)	2.8	3.8[9]
Main trading partners (1992)	Exports	Imports
Singapore (% of total)	23.3	20.6
Japan	13.2	25.9
US	14.8	15.7
Germany	4.1	4.2
UK	4.0	3.4

Notes:(1) latest; (2) year to first quarter; (3) 1991 figures; (4) May; (5) Bank of America 1993 forecast; (6) January; (7) 1993 to date; (8) government target; (9) Barclays Bank 1993 forecast
Source:IMF, Datastream, Economist Intelligence Unit, Barclays Bank, Bank of America

After record growth rates, the economy has reached a plateau of success, says **Kieran Cooke**

Consolidation is the new priority

IN most countries, a yearly 8 per cent economic growth figure would throw finance ministers and central bankers into paroxysms of joy. Not so in Malaysia.

Last year Malaysia's overall GDP growth was indeed 8 per cent, but the figure was described merely as "creditable" by Bank Negara, the country's central bank.

Malaysia has been used to flying in the clear skies of economic success, with soaring GDP growth rates of 9 per cent in 1988, 8.7 in 1989, nearly 10 per cent in 1990 and 8.6 per cent in 1991.

The buzz word now is consolidation. The economy, say the official planners, is taking a breather. A combination of continuing tight counter-inflationary policies at home and a less than buoyant market abroad means that GDP growth will further moderate to between 7.5 - 7.8 per cent this year.

"The prospects for a slow and moderate recovery in the major industrial countries could well be a blessing in disguise," says Bank Negara. "It would provide some much needed respite for the Malaysian economy to consolidate its position – to alleviate outstanding infrastructural and supply impediments and pave the way for sustainable growth with stability over the medium term."

But overcoming those impediments, which include serious labour shortages, infrastructure bottlenecks, a drop in investments growth and weak markets for various export sectors, will not be easy. Malaysia has been climbing fast. Last year per capita income increased a further 11 per cent to M$7,541 ($2,950).

Malaysia's long term plan is to be a fully industrialised country by the year 2020. The government has set an average annual growth target for the next 27 years of 7 per cent. Achieving these targets is likely to become progressively tougher.

The fundamentals of the economy are still sound. The main achievement of 1992 was on the balance of payments front. At the end of 1991 the finance ministry had predicted a 1992 merchandise trade deficit of M$3.7bn. In the event the merchandise account recorded a surplus of M$7.3bn last year, compared with a deficit of M$461m in 1991.

A sharp fall in imports rather than export growth was the main reason for the merchandise account improvement. The value of imports tripled in the years 1987 to 1991. In 1992 the value of imports increased by only 0.4 per cent.

The deficit in the services account, mainly due to freight and insurance payments, narrowed slightly to M$12bn last year, giving an overall current account deficit of M$4.4bn, representing 3.1 per cent of GNP, compared with a deficit of M$12.5bn or 10.1 per cent of GNP in 1991.

Officials are now predicting a small current account surplus of M$350m for this year, the first since 1988.

The international reserves position also improved. Reserves stood at M$47.2bn at the end of 1992, up from M$31bn the previous year and topping the country's external debt of M$41.4bn.

In recent months the overriding concern of economic policy – and the factor which has been chiefly responsible for the moderation in growth rates – has been the fight against inflation. Traditionally Malaysia has had low inflation: when inflation was rising above 5 per cent at one stage last year the alarm bells started to ring.

High interest rates were maintained through 1992. This lessened demand for domestic credit but caused a large inflow of funds from abroad. As a result Bank Negara was forced to mop up more than M$15bn of excess liquidity from the domestic banking system.

Electronic component making: exports are essential to Malaysia's economic survival

Restrictions were imposed on hire purchase and credit card use. Government spending in a number of areas was cut back. Investment projects in the private sector were curtailed. As a result there was a sharp drop in the growth of private sector spending – from 16.5 per cent in 1991 to 2.3 per cent in 1992. (Car sales in 1992 dropped by 15 per cent – compared with a growth in sales of 14 per cent the previous year.)

The battle against inflation continues: Bank Negara says the overall inflation rate last year was 4.7 per cent compared with 4.4 per cent in 1991. "The real issue for us is to build a strong foundation for our economy to make a leap towards the next phase of industrialisation," says Mr Anwar Ibrahim, the minister of finance. "Unless we are firm in our resolve to break the back of inflation, that foundation will be shaky and our future progress will be jeopardised." There seems little room to dampen down domestic demand further without damaging overall growth prospects. Officials see little likelihood of bringing price rises down to under 4 per cent by the end of the year.

Malaysia is vitally dependent on trade: two way merchandise trade is equal to nearly 60 per cent of GDP. For the first time in several years export earnings in 1992 failed to achieve double digit growth rates. Exports earnings for the year were M$102.8bn, an increase of 8.8 per cent compared with growth of 18.6 per cent in 1991.

The moderation in export growth was mainly due to the continuing problems being faced in Malaysia's main markets – Japan, the US and the EC. Malaysia's commodity export earnings also declined due to generally low world prices. Exporters were hit further by the appreciation of the ringgit, the Malaysian dollar, against the major currencies.

Official predictions of a better export performance this year seem to be right: in the first four months of the year exports were up 24 per cent as against 8 per cent in the previous corresponding period. Meanwhile imports rose by 9 per cent.

One of the main reasons for Malaysia's economic growth over the last five years has been due to its success in attracting millions of dollars worth of investments – both from overseas, and more recently, from internal sources.

According to government figures total investment approvals rose from M$3.9bn in 1987 to M$9bn in 1988, to M$12.2 in 1989 and M$28bn in 1990.

In 1991 investments peaked at M$30.8bn. Last year they dropped to M$27.7bn. Of that figure M$17.7bn was foreign sourced – an increase of 2 per cent over the foreign content in the 1991 figure – while M$10bn was domestic – representing a fall of more than 30 per cent from the previous year.

Mrs Rafidah Aziz, Malaysia's minister of trade and industry, says Malaysia has already achieved more than 70 per cent of its investment target under the present five year plan (1991-95). But there is no doubting the official concern about the investment downturn.

Other countries in the region, in particular China and Vietnam, are attracting investments away from Malaysia. In 1991 Taiwan was one of Malaysia's biggest investors, with investments of M$3.6bn. Last year Taiwan invested less than half that amount.

Foreign investment approvals in the first six months of 1992 were M$7.5bn. This year the figure for the equivalent period was M$1.6bn. Over the same period last year approved domestic investments were M$4.1bn. This year the figure was M$2.7bn.

"It is important for the government to come on more aggressively to promote domestic private investment in the absence of a strong inflow of direct foreign investment," says the mainly privately funded Malaysian Institute of Economic Research. In a budget later this year the government might lower corporate tax from its present 34 per cent as an added incentive to investors.

A key problem with attracting investments is Malaysia's contracting labour supply. The official unemployment rate is 4 per cent but in many parts of the country it is zero. Industrialists have become frustrated with a high rate of job hopping and upward pressures on wages.

In some areas 70 per cent of workers on rubber and palm oil estates are foreigners – mainly from Indonesia or Bangladesh. The government is nervous about the implications of the presence of a large immigrant population – estimated at up to one million – and the possible upsetting of the country's delicate racial balance.

No one is suggesting that Malaysia's economy is about to take a dive. But there are many who forecast economic turbulence ahead as the country runs into constraints on investments and labour – and braces itself for a more competitive regional environment.

■ PAHANG AND TERENGGANU

On the road to development

THE mountain range that runs from north to south in peninsular Malaysia serves more effectively than any border in carving out separate nations of the east and west, writes JENNY LUESBY.

Peninsular Malaysia's largest state of Pahang is only 40km from Kuala Lumpur at its western border, but in terms of development the distance is far greater.

Where much of the west coast is heavily industrialised, the east remains an agricultural economy where timber and rubber are supporting the first tentative moves into resource-based industry.

The development of oilfields off the east coast at Kemaman, in the coastal state of Terengganu, has given the region a leg-up, and its natural beauty has brought in the tourists, but its growth remains in its infancy.

The official line is candid: "Ten years ago, Terengganu had virtually nothing to offer," says Mamat Ghazalee bin abd Rahman, chairman of the state committee for petroleum, industry and human resources. But, things have changed, he says, with the arrival of oil and gas.

The area is a haven of order next to the world's fastest growing markets

And they have. The state has built a port, upgraded its roads, expanded power and water supplies, improved communications and set up the obligatory crop of industrial estates.

The oil revenue has also brought ornate local government, police and state assembly buildings, heavy with marble. Mining and quarrying, which includes the oil industry, accounted for 63.8 per cent of Terengganu's Gross Domestic Product in 1990.

Manufacturing remains thin on the ground. So too does employment. "We have had many inquiries," says Haji Mohd Zaki bin Haji Yusoff, director of the Terengganu development corporation, "but people generally locate elsewhere."

In neighbouring Pahang, more than 40 per cent of investments up until December 1991 fell within the public sector, highlighting further the investors' shyness.

The less educated population on the eastern side of the peninsula and the limits on its infrastructure may have deterred some, but the states of Pahang and Terengganu probably have a point when they suggest that people do not come because they do not know what is there.

Both Pahang and Terengganu have abundant supplies of power. They also have products such as polyethylene, for producing plastics, which have come with the petrochemicals industry. The states seem to have the potential for developing a sound industrial base.

"We see Vietnam and China as competitors really," says Haji Mohd Zaki. But facing them across the South China Sea, the region may find its location an added advantage.

Serviced to western standards in every area from legal and accounting services through to cargo facilities, the east coast offers a haven of order next door to what could be the world's fastest growing markets in years to come.

The east coast's facilities include two new ports, a deep-water natural harbour at Kemaman, capable of taking vessels up to 120,000 dwt, and a small and efficient operation at Pahang's state capital, Kuantan. These could be used as transshipment centres.

And while the official downgrading of Kuantan airport from international status has brought irritation in Pahang, and a degree of inconvenience as air cargo heads to Kuala Lumpur, the decision could be reversed if air traffic picks up.

In the meantime, local ambitions are subdued. There is the occasional mention of electronics and high-technology, but conviction is absent. The area's real thrust for development is through industry rooted in the region's ample resources.

Agriculture is expected to account for nearly 40 per cent of GDP in Pahang in 1993, and more than 40 per cent of employment. Oil palm, rubber and timber made up its bulk, with oil palm alone accounting for an estimated 20 per cent of the state's GDP.

Both Pahang and Terengganu also offer an enviable range of minerals, which as well as tin, include mercury, silica, tungsten and graphite.

"We do not want loggers, we want chipboard, and even furniture manufacturers," says a local official. Unlike the west coast, the region is also interested in heavy and labour-intensive industry.

But, for now, the region's manufacturing is small – in 1992, manufacturing accounted for 14 per cent of GDP in Pahang. In the somewhat information shy state of Terengganu the most recent figures available are for 1990, when manufacturing accounted for just 8.2 per cent of GDP.

Tourism has been the states' true testing ground. Tourist arrivals in Pahang rose by 77 per cent between 1986 and 1991, to reach 1,712,647. The length of stay also increased, and hotel occupancy rates improved from an average 50 per cent to 80 per cent.

In this context, the states, both predominately Moslem, are at pains to emphasise their religious tolerance. The balance is a delicate one, especially with the recent switch to a more fundamentalist government – opposed to the federal authorities – in the state of Kelantan, north of Terengganu. But the fact that nearly half of Pahang's tourist spending is in the rural Genting highlands, notable for the fact that it houses the one and only gaming casino in Malaysia, would tend to bear out the assertion that tolerance is high: gambling is contrary to Islamic teachings.

The rural casino is not the region's most off-beat venture. There is also an eel farm set up by a Taiwanese investor, which boasts of being the largest in the world. Odder still is the imminent arrival of the kit from the recently closed Ravenscraig steel plant from Scotland.

Jenny Luesby weighs the role of the car industry

Vehicle of growth

MALAYSIA has a dream, called Vision 2020. The idea is to achieve the economic status of an industrialised nation by the year 2020.

Its car industry is one of the ways that it sees of getting there.

Perusahaan Otomobil Nasional, or Proton, produced its first car in 1985. The country's "First National Car Project" was seen as the means of expanding the nation's engineering skills and manufacturing capabilities.

In conjunction with Mitsubishi of Japan, the government set up the plant and Proton began to motor.

By 1992, the company accounted for more than 67 per cent of the domestic car market, was exporting to 17 countries, and had established a sizeable sales network in the UK. Delighted at this progress, the Malaysian government announced Proton's partial privatisation and a second car project.

From the beginning, the government's intention has been to use its car industry as a way to develop an engineering sector. By supplying its own industry, it hoped to iron out any start-up problems, so that it could move on to the world stage as a fully geared up supplier of cars and subsequently of components.

Local content was the name of the game, and Proton was playing well.

British consultant engineers were imported, to the disappointment of the manufacturer's Japanese partners, and Hicom, the government controlled heavy industrial holding company, began manufacturing car parts.

Fuel tanks followed radiators and exhaust systems on to the local content list.

Success is measured only partially in the 102,800 units that Proton produced in the year to March 31 1993. More significant for the government were the 200 car component companies that emerged, including more than 70 which were producing for the original equipment market.

A ban on external sourcing of more than 30 components had helped to take the local content of motorcycles assembled in Malaysia to more than 75 per cent. Proton to over 60 per cent and other passenger and commercial vehicles to more than 30 per cent by the beginning of this year.

By 1993, the country could boast 13 vehicle assemblers, including Proton, with a total installed capacity of 306,000 units of motorcycles per year, and 202,000 units of passenger and commercial vehicles, none of which was 100 per cent externally sourced.

As for the second national car project, the government claims that it will not eat into Proton's sales but will offer a variant of a Japanese 660c model aimed at the market below the Proton's price range. In collaboration with Daihatsu of Japan, it aims at a 1994 start-up to produce 20,000 cars a year.

The government has taken steps to ensure that any market contraction will be felt first by imported vehicles. Hire purchase limits, introduced in 1991 to moderate domestic demand, were amended in April 1992 to exempt cars costing less than M$40,000, which Protons do.

The rules were subsequently lifted altogether, but the slowdown they prompted cut the sales of the dearer imported cars. Sales of non-Protons fell by 25 per cent between 1991 and 1992.

Import tariffs have also been used to sharpen the price differential between locally assembled cars, parts for which are charged at between 13 and 40 per cent, and completely built car imports, charged at 140 to 300 per cent: and are anyway limited to 10 per cent of the market.

But Proton has been ailing in its own right of late. Sales in the financial year to the end of March 1993 were down nearly 2 per cent on the previous year.

The setting for the decline was a slowdown in Malaysia's motor industry as a whole, after marked growth from 1988 to 1991. In terms of sales, commercial vehicles fell by nearly 57 per cent to 35,054 in 1992, compared with 81,099 in 1991, while passenger vehicles fell 13.5 per cent to 117,773.

The decline at home made Proton all the more determined to export. By the end of April 1993, it had exported 66,183 cars, of which 56,821 were to the UK, where it has gained from the demand for cheaper cars in recessionary times. There is even talk of an overseas plant, in Indonesia, or maybe in Chile.

The outlook for Proton certainly rests on its success as an exporter. Malaysia's own demand could not support one car manufacturer, let alone two. It is also exposed to foreign exchange risk because of its yen-based costs, which one industry analyst suggests were as high as 45 to 50 per cent in 1992.

It can offer cheaper labour costs than many of its competitors, but lacks economies of scale.

At the end of the day, Proton is an anomaly. It exists to feed a nation's greater need, and it is likely to receive all the protection it needs to survive, until its survival is no longer tied up with Malaysia's Vision.

Mohamad Nadzmi: 'If things go wrong, my career is over. There's no turning back'

Profile: Mohamad Nadzmi, head of the Proton company

Youth in the driving seat

MR Mohamad Nadzmi Mohamad Salleh has one of the most difficult jobs in Malaysia. At only 39, he is head of Proton, Malaysia's national car company. Proton is the pride of Malaysia and the project most dear to Dr Mahathir Mohamad, the prime minister.

"It's tough now and it's going to get a lot tougher," says Mr Nadzmi, who has been in his new post since mid July. "Proton is the cornerstone of the country's industrialisation programme. It's daunting to take such a job on. If things go wrong then that's the end of my career. There's no turning back. We have to succeed."

Mr Nadzmi describes himself as a professional manager rather than a technician or engineer. He studied economics, chemistry and mathematics in the US, then returned to Malaysia to work for Petronas, the state oil company, and HICOM, the government controlled heavy industrial holding company.

Mitsubishi, Proton's Japanese partner, has had its men at the head of the national car project for most of time since the first car rolled off the assembly line in the mid 1980s.

But there has been talk of friction between the partners, with the Malaysian side dissatisfied about the slow rate of Japanese technology transfer, while Mitsubishi apparently disapproved of Proton's ambitious export plans – fearing competition overseas from the Malaysian car.

Mr Nadzmi was catapulted into the managing director's seat on the insistence of Dr Mahathir. "It was always realised that the Japanese could not go on running the company indefinitely. It was felt that now was the time for Malaysians themselves to take control," says Mr Nadzmi.

A Malaysian did head Proton for a time five years ago. But the Japanese reassumed control as various problems threatened the project's future.

In Malaysia, questions of politics and race are part of almost every activity. Mr Nadzmi has to have the right political allies if his authority is to be maintained. Part of Mr Nadzmi's brief is to encourage more bumiputra or Malay participation in the industry. He has to do this while not offending other groups.

"I know people will be watching to see if I perform well. I think I have about five years to really prove myself. Proton has achieved so much but the next phase will be harder. We've got to find new markets so we can expand production and bring costs down. We've got to introduce more competition in our supply network. That means I'm going to make enemies and offend some politically well connected people. But it's got to be done."

Mr Nadzmi has already proved himself as a businessman. Before his present job he built up Edaran Otomobil Nasional (EON), Proton's distributing company, into one of Malaysia's most successful conglomerates, with a listing on the Kuala Lumpur stock exchange.

"I'm not going to disregard what the Japanese have done at Proton. We can't reinvent the wheel. The Japanese have introduced their proven production methods. But as a Malaysian I think I know how to motivate people better." Mr Nadzmi feels Malaysians have a great flair for design. They are also good innovators. But making sure people stick to modern industrial working practices is not easy.

Kieran Cooke

Temperatures run high at the Kuala Lumpur stock exchange

From peak to shining peak

THE Kuala Lumpur stock exchange has been breaking records this year. The composite index has reached successive peaks and the number of shares traded has sometimes exceeded levels in New York and Tokyo.

Following a round of privatisations which brought companies such as Telekom (the telecommunications network) and Tenaga (the electricity utility) on to the market, the KLSE's market capitalisation of more than $100bn is now comfortably ahead of regional rivals Bangkok and Singapore.

The increased volumes and the rise in the index, however, have not always moved in step.

The first half of the year was characterised by frenzied activity from local speculators, largely in secondary stocks. Volumes soared – on April 15 more than 1bn shares worth about $1bn changed hands – but the index, dominated by blue chips, responded only sluggishly.

Trading patterns were typical for a developing market in a booming economy; as in Bangkok a few months earlier, investors piled into a maelstrom of speculation and share-ramping by syndicates. Some brokers slept in their offices at night as they struggled to keep up with the paperwork, and chartered helicopters to shift scrip around the country.

"Before they would buy 10 lots [of 1,000 shares], now it's 100 lots," said one stockbroker of his clients. Money held offshore by ethnic Chinese businessmen flooded back into the country as confidence in the ringgit, the Malaysian dollar, strengthened. A lack of rights issues as a result of a reorganisation of the market's regulatory system has left investors with plenty of cash, although that is likely to change in the remaining months of this year.

Each political rumour, each hint of a tenuous business deal in China produced a flurry of activity in the stock concerned, a trend encouraged by a series of tentative agreements signed by Malaysian businessmen during a visit to China in June by Dr Mahathir Mohamad, the prime minister.

It was the smaller stocks that were attracting the most attention. The price of a small property company called Granite, with a handful of employees and an unimpressive track record, increased more than tenfold on the back of an agreement to install thousands of gambling machines in north-east China.

Other China gaming plays soared as well. Timber stocks rose as the price of logs on the international market climbed sharply. Companies with strong government connections, such as Renong, were bought heavily, with speculators assuming they would benefit from contracts for large infrastructure projects; sometimes several competitors for the same deal were ramped one after the other, brokers said.

Political manoeuvering before November's contest for the deputy leadership of the ruling Umno party has given a further boost to stock exchange activity

Political manoeuvering ahead of elections in November for posts in the United Malays National Organisation (Umno, the dominant party in the government) has added further zest to the stock market. Attention is focused on an expected tussle between Mr Abdul Ghafar Baba, the incumbent party deputy president and deputy prime minister, and his undeclared challenger Mr Anwar Ibrahim, the finance minister.

Speculators buy stocks in companies linked to politicians they believe will do well in the election. Conversely, they also buy companies connected to probable losers, on the grounds that the losers will be persuaded to withdraw in return for financial favours from the eventual winners.

Stockbrokers believe that the finance ministry will, before the election, rush through a plan to list the state Heavy Industries Corporation of Malaysia (Hicom), probably by means of a reverse takeover involving New Serendah, a small listed rubber company whose share price has jumped in anticipation: an allocation of 30 per cent of the shares to Bumiputras (Malays) at a substantial discount is likely to give the Malay community a pre-election windfall.

Perhaps inevitably, the bull market has been marked by an element of greed. Traditional blue chip stocks such as the Sime Darby conglomerate are considered too dull for speculators interested only in quick profits.

"When you tell a client the upside of a share is 20 to 30 per cent, they say they're not interested – they want 100 per cent," said a local stockbroker.

The dangers of such a febrile market were demonstrated recently by a fiasco involving Union Paper, a small toilet paper manufacturer thought to be a target of a reverse takeover bid by a property and financial cooperative dominated by Umno members. The shares soared to more than 10 times their original value and then plunged, leaving some speculators in default, apparently because of illegal short-selling.

The new Securities Commission, established earlier this year, has investigated the affair and is expected to make an announcement soon. Union Paper's shares were suspended.

It was a salutary lesson for small investors, who subsequently lost some of their enthusiasm for second board stocks and took more interest in blue chips. Both the KLSE and the Commission are attempting to tighten regulation of the market to curb share manipulation and put a stop to misleading company announcements, although foreign and local brokers have yet to be convinced that the regulators have teeth.

"People start to feel that there is one place where they can make quick and big money," acknowledged Mr Nik Mohamed Din, KLSE executive chairman.

"When the market becomes bullish there are bound to be some problems that come up. We are very concerned and very vigilant to avoid situations where people benefit through manipulation," he said. "If we do not check this kind of activity then the market will not be sustained. One of these days it will just burst."

While the KLSE is demanding more frequent and accurate announcements from companies – about, say, their deals in China – the Commission is tasked with investigating other misdemeanours and with streamlining the hitherto bureaucratic procedures for new listings.

Other developments include the proposed establishment of the Kuala Lumpur Options and Financial Futures Exchange (Kloffe) by a politically well-connected private sector consortium (in the face of initial opposition from the Kuala Lumpur Commodities Exchange and the KLSE), and the slow implementation by the KLSE of its central depository system for immobilising scrip and reducing paper transfers; 11 shares from the second board have been included so far and the KLSE wants to bring in the other 60 or so second board companies by the end of 1993, and to complete the entire process within five years. Merrill Lynch, meanwhile, has issued call and put warrants on the composite index.

Although some foreign brokers are unsure whether Kuala Lumpur needs complex derivatives markets at this stage in its development, they are confident in the underlying strength of the KLSE, which now has nearly 400 companies quoted on its main and second boards.

Brokers in the Malaysian capital also believe that the threat to their turnover posed by the over-the-counter CLOB market in Singapore – which Mr Nik Mohamed describes as a "black market" – is gradually diminishing, especially as CLOB does not deal in newer arrivals on the KLSE such as Tenaga or Telekom.

The KLSE itself says there are 89 foreign funds with investments in the Kuala Lumpur exchange, and foreign interest has increased since the middle of the year, pushing up the index – if not the volume – after the local speculators eased off.

"In the first half of the year, it was retail-driven, but in the past month or two it's swung around the other way towards institutional buying," said Mr Eugene Marais of Baring Research (Malaysia). "Foreign interest has surged."

Even if much of the trading by Malaysian investors on the exchange is purely speculative, the economy remains robust and continues to grow at eight per cent or more a year. Average earnings per share are forecast to rise 13.5 per cent this year and 15 per cent in 1994.

By mid-August, however, Kuala Lumpur shares were starting to look pricey to investors interested in fundamentals, especially when compared with rival stocks in Asia's other fast-growing economies. The KLSE's prospective price/earnings ratio for 1993 was more than 22, and even for 1994 it stood at 20. "It's quite expensive," said one broker.

Victor Mallet

■ LABUAN ISLAND

Asian centre for offshore finance

TODAY the sign at the gate of the "Financial Park" on Labuan island leads only to a muddy building site and a cluster of pile drivers, but by the end of 1995 the island's small town should be overshadowed by at least M$400m worth of office, condominium and commercial buildings.

The creation of the Financial Park – by a consortium of the Malaysian central bank and commercial banks – underlines the determination of the federal authorities to make Labuan a thriving international offshore financial centre (IOFC) in the face of widespread scepticism among bankers in south-east Asia.

Labuan's shortcomings are well known: office space is in short supply on this 92 square kilometre island off the coast of Borneo and clerical staff are hard to find. Only small aircraft such as the Boeing 737 can land at the airport, and the government has deferred plans to lengthen the runway.

Since declaring Labuan an IOFC in 1990, however, the Malaysian government has devoted much time and millions of ringgit to ensure that Labuan succeeds.

"We the authorities are quite worried that it's moving too fast," says Mr Mohamad Khir Abd Rahman, manager of the bank regulation department at Bank Negara, the central bank. "New offshore banks are fighting for new office space."

That problem should be solved when the Financial Park is finished – the developers say a third of the office space has already been informally booked – and in the meantime banks are allowed to manage their offshore units from Kuala Lumpur, although they must also maintain an office on the island.

So far 13 banks have been licensed to establish offshore units in Labuan, including Standard Chartered, Hongkong Bank, two Japanese banks and the main Malaysian banks. Bank Negara officials say total loans and deposits have each reached about $1bn – tiny by comparison with Hong Kong or Singapore but growing fast. There are also three insurance companies and 139 other companies licensed to operate offshore in Labuan.

Officials hope that Labuan Island will benefit from the flight of capital from Hong Kong in the run-up to the British colony's transfer to China in 1997

The Labuan economy, previously reliant on regional entrepôt trade based on its free port status, services to the oil and shipping industries, has profited from the government-inspired building boom.

Officials of the opposition state government in Sabah argue that the federal authorities are pouring money into Labuan to persuade voters that cooperation with Kuala Lumpur is better than confrontation: Labuan was part of Sabah but became federal territory in 1984. "Perhaps the idea is to show it's a success if you cooperate with the feds," says one banker.

Dr Mahathir Mohamad, the prime minister and driving force behind the development of Labuan as an IOFC, also looks at the project as a way of stimulating Malaysia's financial sector.

The Malaysian government urges most state companies to raise foreign loans through Labuan. Bank Negara officials say Labuan is centrally located among the countries of Asean, the Association of South East Asian Nations.

They are hoping the island will benefit from capital flight from Hong Kong in the lead up to China rule in 1997.

Labuan compares favourably with its regional rivals on tax concessions. There is no withholding tax on bank interest, and offshore companies are given the choice of a three per cent tax on net profits, or a flat rate of M$20,000. Secrecy for offshore companies is assured.

But international bankers are still sceptical about Labuan. In Singapore or Bangkok, they say, customers can conduct their regular as well as their offshore business. Bermuda and Jersey are millionaires' playgrounds as well as offshore centres. (Mr Khir has an answer to that: "Labuan might just turn out to be that way – a Monte Carlo for instance").

But Labuan is difficult to reach and has few facilities, the bankers say. Why, they ask, does an "offshore" tax haven need to be physically offshore at all?

Although Malaysian officials put a brave face on it, they were taken aback by the almost casual way in which the Thais established their own offshore business earlier this year – called the Bangkok International Banking Facility – and quickly attracted applications from more than 50 local and foreign banks; Thailand granted licences to 47.

Even the few foreign banks already establishing their offshore units in Labuan – with a handful of staff – are believed to be doing so as a kind of political insurance.

Those with domestic networks in Malaysia want to protect their interests by pleasing the authorities; those without operations in the restricted Malaysian banking market hope that supporting Labuan might help them in the future. "People are assuming that this is a good way to score points," says one economist in Kuala Lumpur.

Although this attitude is widely acknowledged, bankers say it does not necessarily mean that Labuan will fail as an offshore centre; the government's financial "pump-priming" and its real or imagined efforts at persuasion could easily give the island's offshore industry the critical mass it needs to succeed.

"It's almost at the stage when they can't afford for it not to work," says one banker.

Victor Mallet

■ INFRASTRUCTURE UNDER STRAIN

Rapid development takes its toll

THE INHABITANTS of Kuala Lumpur have a habit of shaking their heads sympathetically when they meet a visitor from Thailand. Are not the traffic jams in Bangkok appalling, they ask, and is not Thailand's infrastructure wholly inadequate?

Yet Malaysians too are starting to pay a high price for economic success after six years of rapid growth.

Utilities are struggling to keep pace with demand. It can be difficult to place a local telephone call. Power cuts have become more frequent because of a shortage of generating capacity (something which has yet to hit Thailand).

The streets of the Malaysian capital are increasingly congested and polluted, to the extent that the government has launched a car-pooling scheme with the slogan "Get our city moving again". It is true that the roads of Kuala Lumpur are less crowded than those of Bangkok, but then Bangkok's population of some 8m is four times as large as Kuala Lumpur's.

Both cities have promoted the cult of the motor car, failed to provide adequate public transport, and are struggling now to build light commuter railways. Both cities need new international airports, and each is about to construct one.

As in Thailand, Malaysia's drive to remedy its infrastructural shortcomings presents mouthwatering opportunities to local contractors and foreign companies with the right skills: Malaysian officials cheerfully discuss projects worth billions of dollars as they seek to bring everything from telephone networks to sewage treatment plants up to standards adequate to keep pace with continued economic growth.

Some economists are even concerned that the government's eagerness to upgrade Malaysia's infrastructure and maintain high growth rates may itself put further strains on the economy.

Building new roads, for example, deprives businesses of much needed workers when unemployment is effectively zero across much of the country. "People look at growth rates here like they look at inflation rates in Germany," said an economist in Kuala Lumpur. "It's a political question, not economic."

The local telephone service is slow and Kuala Lumpur's streets are increasingly congested

One thing that is not – so far – in short supply is capital, foreign or local. Malaysia's foreign debt service ratio has declined to below six per cent of export earnings. Local investors are as enthusiastic as foreign banks to finance viable projects. But Malaysia could face stiff competition for funds from other countries in the region who also face similar infrastructure problems.

Dr Mahathir Mohamad, the prime minister, has taken his cue from Mrs Margaret Thatcher's government in Britain in the 1980s and started to privatise transport and utilities with an enthusiasm rarely matched elsewhere.

Portions of the electricity and telephone networks have been sold to the public and the companies – Tenaga Nasional and Telekom Malaysia respectively – have been listed on the Kuala Lumpur stock exchange.

Faced with serious power shortages, the government has also strongarmed Tenaga into agreeing to buy electricity from independent power producers known as IPPs, some of which may eventually be listed on the stock exchange. Sixty proposals for power stations have already been made by various joint ventures, but only five have so far been approved and financing constraints will probably mean that not all the approved projects actually proceed.

Private sector responsibility for infrastructure projects does not make Malaysia a wholly free market.

Many of the companies which have won big contracts for roads and other infrastructure developments, like Renong and Berjaya, have strong connections with government, either through personal friendships or because they are linked to the United Malays National Organisation (Umno), the dominant party in the government.

Eyebrows were raised, for example, when the Berjaya group, in association with Britain's North West Water, won, without a public tender, a preliminary M$6bn agreement to build and upgrade urban sewage facilities. Berjaya has little experience of such contracting work, but it is an influential company and Mr Vincent Tan, the group's chief, is said to be close to leading figures in government.

Some businessmen have criticised the use of funds from organisations such as the Employees' Provident Fund, or the police and army pension funds (the last two have stakes in the sewage venture) to finance infrastructure projects with Umno connections, but others believe there is no problem as long as the project concerned is bankable; such organisations have to invest their money somewhere.

Although there is no doubt that some companies benefit from government largesse in such deals, Malaysia does not suffer as badly as Indonesia or Thailand from the corrosive effects of corruption and official indecision.

Infrastructure projects, says a banker, "are not so obviously overpriced". Existing and proposed projects include:

● Airports and ports: About M$20bn is to be spent on a new international airport at Sepang, south of Kuala Lumpur, with the first phase costing about M$10bn and an express rail link to the capital a further M$1.2bn. A masterplan study drawn up by an Anglo-Japanese consortium, comprising Balfour Beatty, Trafalgar House Construction, Gammon of Hong Kong, G-MATS and Marubeni, forecast that the number of passengers passing through Kuala Lumpur could rise to between 55m and 60m by the year 2020, compared with 8.8m in 1991. Other airports and sea ports are also being upgraded.

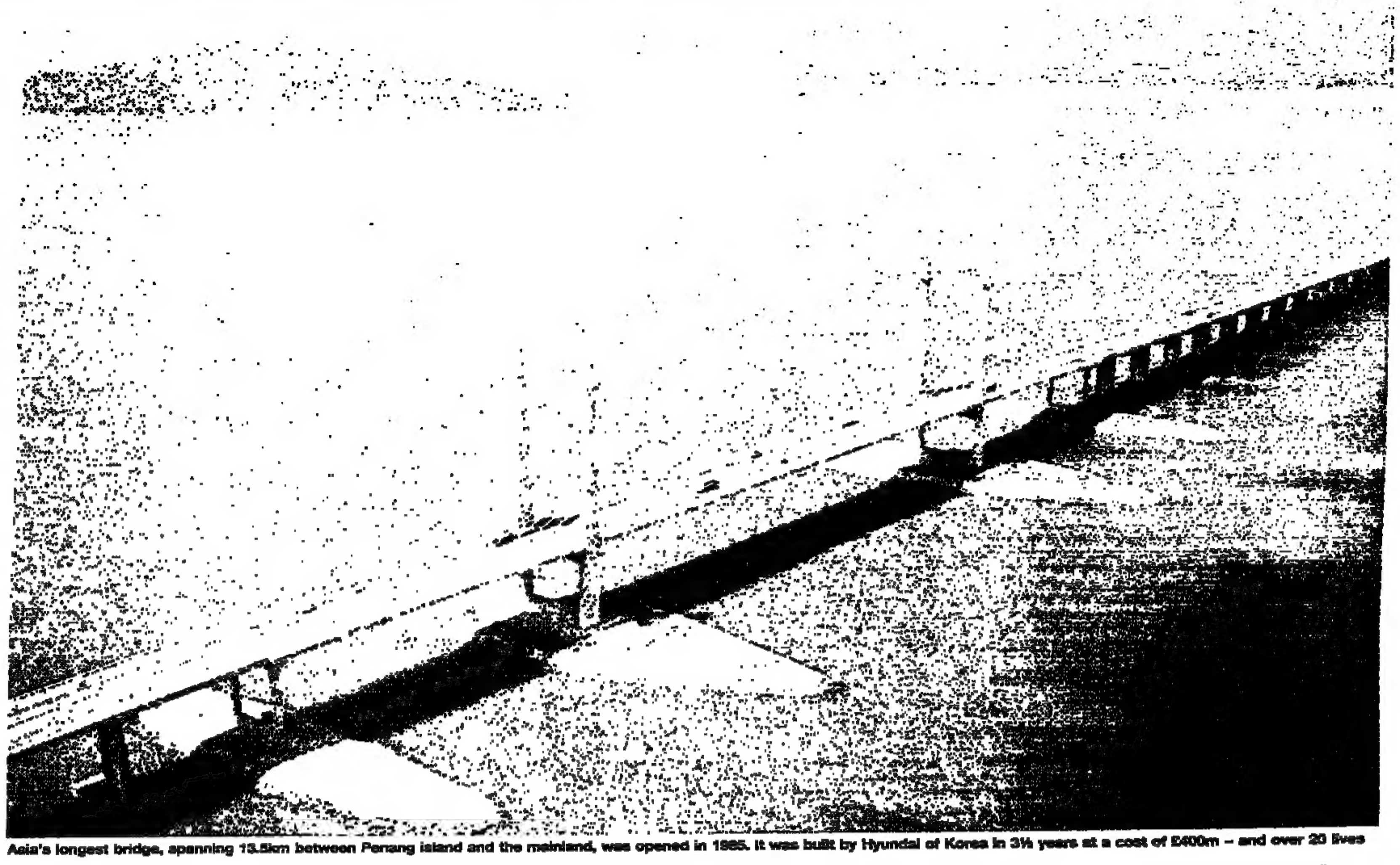
Officials say $10bn needs to be invested in telecommunications over the next 10 years

● Telecommunications: Malaysian officials say about $10bn of investments will be needed over the next decade. Demand is expected to rise sharply, with international traffic growing by as much as 30 per cent a year. There is scope for expansion; at the end of last year there were 11.6 lines per 100 inhabitants, a third of Singapore's ratio.

● Railways and roads: The Malayan Railway Administration (KTM) has embarked on a programme to double-track busy lines. Work is underway in the Klang valley between Kuala Lumpur and its seaport at Port Klang, and there are plans eventually to double-track the entire distance between Johor in the south and Butterworth, opposite the island of Penang, in the north. There are also plans for a light rail transit system in Kuala Lumpur. An Anglo-German consortium led by Taylor Woodrow this month raised £300m to finance the first 12 kilometre link which will take 34 months to build. As for the road network, the north-south highway, a toll road, is expected to be completed next year after the securing of additional funds to meet cost overruns. A second causeway is planned for the crossing to Singapore.

● Construction and property: United Engineers Malaysia (UEM), a company connected to the Renong group, plans to build a M$450m stadium and village for the 1998 Commonwealth Games outside Kuala Lumpur, in exchange for property with development potential in the capital, including the old national stadium. Other developments include a huge twin-tower office complex in central Kuala Lumpur, and private and state hospitals.

Victor Mallet



Asia's longest bridge, spanning 13.5km between Penang island and the mainland, was opened in 1985. It was built by Hyundai of Korea in 3½ years at a cost of £400m – and over 20 lives

Kieran Cooke follows the race to build more power stations

Blackouts are embarrassing

ON SEPTEMBER 29 last year the lights went out through most of peninsular Malaysia. The blackout, blamed on a freak lightning strike and described officially as an Act of God, left many parts of the country without power for several days.

In subsequent months there were a growing number of power breakdowns. Earlier this year what industrialists and others had been talking about for months became official – Malaysia was in the midst of a power crisis.

Dr Mahathir Mohamad, the prime minister, demanded prompt action. Mrs Rafidah Aziz, minister of trade and industry, described the blackouts as intolerable. Mrs Aziz deals with foreign investors in Malaysia: the fear was that electricity shortages would have a damaging impact on the investment climate.

Tenaga Nasional, the country's electricity utility which was partially privatised early last year, has been taking steps to remedy the situation. Maintenance work on existing facilities has been speeded up. Under a special "fast track" energy programme, new power plants are being built.

The incidence of power shedding and blackouts has been reduced. Mr S Samy Vellu, the energy minister, says that by the end of the year more than 500MW of extra power will be available each day to meet maximum daily demands of about 4,600MW.

But Malaysia's economic growth could run out of steam if power output is not constantly expanded. Mr Samy Vellu estimates that Malaysia needs to invest M$10bn ($4bn) over the next 10 years to cope with increasing electricity requirements. Over the next 25 years about M$100bn will have to be invested in the power sector.

Private companies are being urged to participate in building, owning and operating new generating plant

Malaysia cannot meet these massive investment needs from its own resources: it is therefore inviting independent power producers (IPPs) to participate in building, owning and operating power plants.

Malaysia is the first country in the region to get such projects off the ground. Already two IPPs have been granted power producing licences – one to build own and operate a 1,300MW plant at Lumut, in the northwest of peninsular Malaysia, and the other for two plants with a combined capacity of 1,230MW near Singapore in the south.

A variety of other IPP projects are also being considered. Foreign companies are being encouraged to participate and are able to hold 25 per cent of equity in the projects.

But there have been some hiccups. Foreign companies have complained that there is a shortage of local expertise in the power sector and reliable partners are difficult to find. There have also been accusations of political favouritism in the government's granting of IPP licences.

Under new regulations the IPPs will purchase gas to feed their power plants from Petronas, the state oil company, and sell power to Tenaga. These buying and selling contracts, binding over an extended period, have proved very difficult to negotiate. Financiers are also being cautious about extending the large amounts of credit needed to build these IPP power plants.

However there are few who doubt that these plants will be built and Malaysia's power output will be substantially expanded. "It's got to happen," says an energy analyst. "Without the power all the plans for economic growth over the coming years will come to nothing."

Jenny Luesby explores the exotic mixture that is old Malacca

Remnants of empires

"THAT is Christ. You know who Christ is?" says the Portuguese descendant as he points to an altar clearly lit up inside his home.

We are in the Portuguese settlement, a mile outside Malacca on the west coast of Malaysia. It is the night of the cultural show, and Portuguese Square, remnant of a long-gone empire, is strung with lights to attract the tourists.

Malacca first grew up as a port in the 15th century. It has always known how to market itself. When traders needed a well run port, where rules were made and kept, Malacca offered it. The town prospered as one of the earliest gateways to the east, home to wave upon wave of settlers and colonial powers.

The city is still selling itself today, but its audience now are tourists rather than merchants. Malaysia's only designated "historical city", its past is now providing for its future.

In the central museum an entire hall is filled with colourful tableaux showing the wedding ceremonies of the many ethnic groups that came to the city. In reality, five centuries as a Straits settlement gave birth to a hybrid people.

The Malay bride of Malacca wears anything from seven to 13 national costumes on her wedding day, parading in each.

In the Portuguese settlement, the speciality, advertised on the Lisbon Restaurant's neon sign, is prawn sambal, a traditional Malay dish; and the dancers in the cultural show are dressed in Malay costumes.

In old Malacca, Malaysia's oldest Chinese temple, a mosque and an Indian temple all stand within yards of one another. The Chinese houses have Portuguese tiles on their front walls, Portuguese homes are built on stilts, Malay-style.

But the authorities are determined to make things easy for the busy tourist. The answer is the Malacca theme park, where all can be sated.

On a bend by the river there is a Malay kampong, or village, housing two further miniaturised villages.

In the old quarter, and equally stylised, is the world of the Baba-Nyonya people, the Chinese who settled here and took up local ways. Here, the Straits Chinese present a mix of cultures, replete with Venetian mirrors, Victorian chandeliers, and ornate Chinese furniture. In a warren of nearby antique shops, artifacts are piled high. The charm is real, but the goods look a little short on history.

The Chinese houses have Portuguese tiles on their front walls and the Portuguese homes are constructed on stilts, Malay-style

The other side of the river is the Dutch town hall and church, painted deep red. And, in case of doubt, a 15-foot-high model windmill. Beyond these, for those seeking global norms, there is the shopping mall, bowling alley and leisure complex, built on land reclaimed from the sea.

In the city centre, modern-day China town, with its stores full of bicycle wheels and jars of pickle, draws the bargain hunter away from the confusion of cultures. But, back at the remnants of the Portuguese fort and the old British planters club – now an independence memorial – huge concrete models of Malay bullock carts quickly restore the feel of fantasy.

Here, every night, an hour-long sound and light show puts the whole picture into a new perspective. Suddenly, six cultures are no longer six, but one. Like a litany the narrator returns every few minutes to his driving theme: Malacca is where it all began. And what began in Malacca was not the blend that is Baba Nyonga, which is never mentioned. What began in Malacca was Islam, and Malay nationalism.

Now the tourist is made to understand that it is the Malay identity that is, was and always will be at the heart of Malacca.

Arab traders brought Islam to Malacca, from where the city's people spread the word of Allah throughout south-east Asia, the "spectacular" explains. And it was the people of Naning, just inland of Malacca, who most fiercely defended the Malay way, by rising up against the Portuguese, Dutch and British colonialists. Here, too, is where the independence movement began.

In the flash of a light, the ancient port's flow of Indian and Chinese traders is negated, as the show explains that the British introduced racial tension to Malaysia by importing workers from the sub-continents.

The courting of tourism seems forgotten as the need for political correctness comes to the fore. Ironically, though officialdom may point to the city as a monument to all that is Malay, it is the descendants of the Straits Chinese that come in their droves to rediscover their roots. More than 3m tourists came to Malacca in 1992, of whom nearly two-thirds were daytrippers from Singapore. The opening of a second crossing from Singapore should see their numbers rise still further, as the travel time by road comes down to 2½ hours.

Old Singapore may be hard to find, but old Malacca is not. In fact nothing could be easier. The city has recognised a niche market. Its heritage has not just been retained, it has been improved upon. The developers have been held at bay in much of the city's heart, although its fringes have given way to the obligatory high-rise hotels.

More than 1m tourists stayed in the city in 1992, spending $350m, equivalent to more than 15 per cent of the state's gross domestic product.

There are hopes for more tourist dollars in 1994. The success of the "Visit Malaysia Year" in 1990 was too good not to be repeated, and the government is full steam ahead to repeat the exercise next year.

In the meantime, one people or six, the Malaccans' cash registers are ringing out.

هكذا من الاعلان

Sabah's delicate demographic balance is being steadily altered, reports **Victor Mallet**

A crucible of races and religions

ASK for a meal in a cafe in Kota Kinabalu, the quiet, seaside capital of Sabah, and the chances are that the waitress will be an Indonesian teenager; glance at a building site, and half the construction workers you see are probably Filipinos.

Since the 1970s, hundreds of thousands of casual migrant workers and refugees have poured into Sabah, the state perched on the northern tip of Borneo two and a half hours away from the Malaysian capital Kuala Lumpur by air across the South China Sea.

The immigrants, politely and inaccurately called "the transient population" in official documents, are now estimated to account for as much as 40 per cent of the Sabah population of 1.8m and two thirds of the workforce; many have lived in Sabah for two decades.

Their continued presence is yet another bone of contention between the federal authorities and Sabah's predominantly Christian state government.

A large portion of the immigrants, numbering between 450,000 and 700,000, are Moslems from the southern Philippines or Indonesia.

Sabah is one of only two states in the country led by opponents of Dr Mahathir Mohamad, the federal prime minister, and Sabah officials of local Kadazan or ethnic Chinese origin suspect the federal government of wanting to flood the state with Moslems who would be favourably inclined towards Dr Mahathir and the Moslem-controlled national government.

"What Kuala Lumpur is trying to do is to legalise these people by the back door by giving them the identity cards which signify your citizenship," said Mr Bernard Dompok, the Sabah finance minister, in an interview. "We don't mind the workers here, but we want them to be properly regulated."

Like immigrants in so many countries, the "illegals" of Sabah are needed but also resented by the local population.

They work in plantations, building sites, restaurants and hotels and as maids in the homes of richer Sabahans for wages which the local inhabitants would not accept.

Tourism, for example, is an increasingly important foreign currency earner for Sabah, as the logging industry inexorably declines after years of deforestation and over-extraction of valuable timber. In the last five years, visitor arrivals have doubled to more than 100,000. Many workers in the tourism industry are of Filipino origin.

Real GDP growth (%)

	Malaysia	Sabah
1988	8.9	5.5
1989	9.2	6.2
1990	9.7	3.6
1991	8.7	1.8
1992	8	3*

* estimate. Source: Barlis IDS

Plantations of oil palm and cocoa are also vital to the Sabah economy, with the state accounting for 70 per cent of the Malaysian cocoa crop and 10 per cent of palm oil output – a figure which is rising as more and more oil palm plantation developers come in from peninsular Malaysia. In some areas as many as 95 per cent of plantation workers are Indonesians.

Sabah's remoteness and internal transport problems can push costs for businesses 20 or 30 per cent above the national average, and the Sabah government acknowledges that cheap migrant labourers help to offset such disadvantages.

"In many ways the economy of the state of Sabah moves because of them," said Mr Dompok. "They are a source of cheap labour... This is the only competitive edge we have over west Malaysia and Singapore."

Even the smuggling of cigarettes and other goods from the southern Philippines – often on the same boats as the migrants – is welcomed by Sabahan officials as a means of reducing costs, since most customs duties are collected by the federal rather than the state government.

Sabah citizens, however, complain bitterly that the immigrants overload the state's schools and hospitals (without paying taxes) and breed crime and prostitution – to the extent that some areas, especially in the eastern towns of Sandakan and Tawau, are said to be "no-go" areas for the police.

The problem of coping with the immigrants is compounded by confusion over who in Sabah really are Malaysian citizens and by widespread forging of identity cards. Many Sabahans, especially the Kadazans in the interior, do not have birth certificates and it is easy for an immigrant to bribe a village headman into acknowledging him or her as a local.

Sabah's local and foreign workers by sector in 1988

SECTOR	LOCAL (%)	FOREIGN (%)
Agriculture	10	90
Forestry	53	47
Construction	50.7	49.3
Wholesale, retail trade	71.6	28.4
Manufacturing	58	42
Miscellaneous	32.8	67.2

Sources: Statistics Department, Sabah Institute for Development Studies

"They are so integrated," says one ethnic Chinese Sabahan of the immigrant Filipinos. "I myself can't tell the difference. Some people have been here 20 years."

Mr Harris bin Mohamad Salleh, a former Sabah chief minister and a strong supporter of Dr Mahathir, says that 10 to 20 per cent of immigrant Moslems have become citizens over the years and claims proudly that more than half the state's population is now Moslem. But if the federal government is indeed encouraging the naturalisation of such people it is a tactic which may backfire.

One of the dangers is that the presence of numerous Filipinos in Sabah will revive a dormant territorial claim to Sabah by the Philippines; in the 19th century the Sultan of the Sulu islands, now part of the Philippines, leased Sabah for $5,000 a year to British businessmen. He never got it back.

Another danger for the federal government is that the influx of Moslems will not have the desired political effect of boosting support for the United Malays National Organisation (Umno), the dominant national party.

According to officials in Sabah, local Moslems are as resentful as anyone else about the competition from immigrants, especially in the fishing and fishmongering trades along the coast.

Nor is it certain that newly legalised Moslems will support the Kuala Lumpur government. The immigrants often share the Sabahans' resentment of the dictats of far away Kuala Lumpur. The Sabah state authorities, under Mr Joseph Pairin Kitingan, the chief minister, pride themselves on the integration of races and religions in Sabah and have managed to lure some Sabah Moslems into their fold.

"What it [the federal government] doesn't understand is that these people, even if they are Moslems, are basically nominal Moslems," said Mr Dompok of the Filipinos who make up two thirds of the immigrants. "Religion is secondary."

Timber exporters feel ecologists' wrath, writes **Kieran Cooke**

Warfare escalates over use of the tropical forests

LATE last year Austria made moves to introduce eco-labelling on tropical timber products. Such was the reaction in Kuala Lumpur it seemed Malaysia was about to dispatch its troops to hammer in protest on the gates of Vienna.

"If the Austrian government insists on eco-labelling tropical timber based products, Malaysia will retaliate in the same manner," thundered Mr Lim Keng Yaik, Malaysia's minister for primary industries. "For example, we can eco-label their chocolate products that are produced at dirty factories," said Mr Lim.

Austria has since modified its stand, but the tropical timber issue refuses to go away. Various governments and environmental groups accuse Malaysia, the world's biggest exporter of tropical timber, of raping its forests and threatening the lives of forest dwellers.

Malaysia accuses its critics, particularly in the west, of hypocrisy and of practising double standards.

Mr Wong Kum Choon is chief executive of the Malaysian timber industry development council (MTIDC) a body set up by the government and timber industry to counteract adverse publicity.

"Our critics often don't want to listen to the other side of the argument," says Mr Wong. "They think we only look at forests in terms of money. They don't realise Malaysia's own concerns about preserving its forests and managing its timber industry effectively."

Exotic timber from the tropical forest arrives at a Malaysian saw mill ...

... where it is processed before shipment to a worldwide market (Pictures: Cathy Rowland)

Timber is an important part of the Malaysian economy. According to MTIDC statistics, timber and timber products are the country's second biggest commodity export earner after petroleum products. In 1992 Malaysia exported more than M$10bn ($4bn) worth of timber and products, accounting for 10 per cent of total export earnings.

About 40 per cent of timber exports are in the form of logs. Sarawak, in east Malaysia, accounts for nearly 80 per cent of log exports and it is here that environmental attention is focused.

The statistical arguments go back and forth. The World Bank has estimated that trees are being cut down in Sarawak at four times the sustainable rate.

The MTIDC says this is untrue: it says Sarawak has 70 per cent of its land area under forests. Some areas are totally protected, other areas are being cleared for various uses while about half is being logged on a selective, sustainable, basis.

Mr Abdul Taib Mahmud, Sarawak's chief minister for more than 10 years, recently said that logging in his state had been substantially reduced, resulting in a loss of $50m per year in revenues to the state government and the disappearance of thousands of jobs.

Critics do not believe Mr Taib. They accuse the chief minister of working hand in glove with the logging companies and timber tycoons. They say that the federal government allows Mr Taib free rein in exchange for his ongoing support of the governing Barisan Nasional political grouping. The two sides slug it out. There seems little room for compromise. "Timber and human rights are the most sensitive subjects in Malaysia," says a former government official. "As long as there are forests and people the arguments will continue."

■ ELECTRONICS IN PENANG

Chips oust snakes

JENNY LUESBY visits the state which claims to be the world's top supplier of semiconductors

B BRAUN, the US medical manufacturer, already had four plants in Penang when it chose to build another next to an ancient temple seething with snakes.

It was the land scarcity born of economic success that prompted the choice, but it paid off. Eighteen months later the snakes have gone, with the jungle that they came from, and B Braun is thriving.

But then, to thrive in Penang is not exceptional. The state claims it is the world's leading exporter of semiconductors, with the list of companies operating on the island reading like a roll call of the world's electronics and electrical industry. It is also poised to assume pole position in the disk drive industry, as companies relocate from Singapore and local industry expands.

Growth has been rapid, with expansion in textile and food manufacturing following hard on the heels of the electronics sector. Manufacturing accounted for just 12.7 per cent of the state's GDP in 1970. Twenty years later, that share had risen to 46 per cent.

In 1992, Penang's GDP growth is estimated to have been around 11.8 per cent, with the manufacturing sector expanding by more than 15 per cent. The state's chief minister, Mr Koh Tsu Koon, argues that even this figure may be an underestimate.

However, Mr Koh concedes that the last two years have seen something of a slowdown. The Penang Development Corporation (PDC), long the facilitator of growth in Penang, says land sales to companies setting up in the state have fallen in the last two years.

But the PDC argues that the recession in the global electronics industry has served to enhance the state's appeal further as companies, often already based in more costly Singapore, search for further savings.

Conner of the US already had a plant in Singapore when it set up its volume producer in Penang in 1989. "We reckon to save from $10 to $12 on every disk drive that we produce in Penang, over what it would have cost us in Singapore," says Mr Patrick Yeo, Conner's local managing director.

But relocating is a costly business and companies that make the leap are not protected from disappointing sales. Conner admits to being one of many Penang companies operating at well below capacity in the face of a world recession.

Penang remains very much the junior partner compared with Singapore. But it has started to bite into its southern neighbour's industrial base. A well developed infrastructure, the capabilities that have come with its prominence in semiconductors, and strong communications links have enhanced Penang's standing in the electronics sector. But Penang's real edge over Singapore is its relative freedom from Singapore's greatest problems: shortages of land and labour.

Penang has also had its problems in these areas, but they are less acute, and the scope for their solution seems to be greater.

The state's response to a land shortage that finally hit in 1992 was an accelerated programme of land reclamation and great development of state land on peninsular Malaysia – linked to the island by Asia's longest bridge.

The problem of labour shortages has been more difficult to solve. Not so long ago unemployment was a serious problem in Penang. Now there are shortages at virtually every level with companies reporting employee turnover in some sectors of 7 to 8 per cent a month.

The competition for workers means that Penang can no longer boast cheap workers as one of its selling points. But Mr Noor Ahmad Moktar Haniff, general manager of the PDC, points out that at around M$18 ($7) a day for semi-skilled labour, "Penang's labour is not expensive either".

The PDC is firing on all cylinders in its efforts to find more workers. The PDC is trying to persuade Penang graduates, who went abroad to find work in the days before the state's industrialisation, to come back home.

Women, just 44 per cent of whom participate in the labour force, have been targeted, with the state encouraging both the development of child-care facilities and the return to work of older women. "We are also looking at foreign workers as a possible temporary solution, although we are wary of the social problems that this could bring," says Mr Noor.

Workers must also be taught new skills to cater to the changing needs of industry.

"In an area of rapidly developing technology there is the risk of the workforce becoming redundant," says Mr Boonler Somchit, executive director of a special skills centre in Penang. "We cannot allow that to happen. We cannot afford to leave people marking time."

The centre, a privately funded organisation set up in 1989, offers facilities to Penang's companies to re-train their workers.

"We aim to train operators to be technicians, technicians to be engineers, and release engineers into research and development," says a PDC executive. "The point is, there is a place in the sun for everyone."

The labour shortage has, however, brought a change of direction in the state's industrial strategy.

Mr Koh, the chief minister, says that Penang would rather not have labour intensive industries. "We would rather see a situation where Penang is the centre for technology, the centre for operational headquarters, for research and development, and for higher-end production. And the neighbouring states or regions are areas for more labour intensive production, so that there can be linkages."

Penang is now trying to market itself and its surrounding states in the north of peninsular Malaysia as a single, diverse, resource-rich investment area, and lobbying the federal government for infrastructure and other investments.

On a grander scale, the states are part of a recently agreed upon "growth triangle" linking north Sumatra in Indonesia and the southern states of Thailand. Ministers from Malaysia, Indonesia and Thailand have already agreed on the relocation of some of Penang's electronics components companies as the first stage in this project.

In future, the main difficulty for Penang will not be in turning away labour-intensive investments, but in attracting higher technology producers. Mr Yeo of Conner says Penang is like a rare gem. "The polishing is done, but the finer touches have yet to come."

"At the end of the day, though, I am a businessman, and my vote is for this place."

Company profile: ENG hardware engineering

Dr. Teh's rapid rise

ENG, set up with $200 19 years ago, is now one of Penang's leading computer companies

CHINESE physician Teh Ah Ba set up ENG hardware engineering in 1974, with just M$500 ($200). Last month, the ENG group was listed on the second board of the Kuala Lumpur Stock Exchange with a market capitalisation of around M$120m.

In less than 20 years, the group has established itself as one of Penang's leading computer components and precision engineering suppliers, employing 250 people in a M$20m purpose-built factory.

Penang's transformation may have been built on foreign investment, but ENG is typical of a growing breed of local companies that have flourished in the wake of the multi-nationals.

"In Malaysia, we are pioneers. If we see a challenge, we meet it," says Alfred Teh, group executive director and son of the founder. But it is the scale of ENG's success that makes it unusual. Mr Teh believes that at least part of the reason for that has been his father's determination to prove that a physician can succeed as an industrialist.

Teh Ah Ba still works in the medical profession today, although mostly on a charity basis. Manufacturing, not medicine, has long since been the elder Teh's main career.

He saw his chance with the arrival in Penang of the multinational semiconductor producers in the early 1970s. "They provided the market for local producers. It was up to local producers to match up, in terms of investment and quality," says Alfred Teh.

"That was our mission – man, method, money and market, that is what you need, and we had them."

In a climate of strong government encouragement of local sourcing, ENG began in a small way, by servicing the multinationals' needs for engineered spares and parts. But it quickly developed into something of a specialist as a vendor to the semiconductor industry, concentrating on high-tech strong carbine tooling and machining, and robotic automated systems.

By the mid-1980s, 30 per cent of ENG's sales revenue was coming from direct exports: to Hyundai in Korea, Intel in the US and semiconductor assemblers in Singapore and Thailand. The next target was the disk drive industry.

"We were already meeting the challenges of high value added precision engineering, and were looking for further diversification. We also wanted to move from jobbing into manufacturing," Alfred Teh says.

"We got our first break with Maxtor, of the US, which was assembling disk drives in Singapore, just an hour away. Then, Maxtor moved to Penang." Maxtor was followed by other disk drive manufacturers and support industries, and ENG had broken into another market.

Since then, it has gone on to become the largest producer of E blocks for disk drives in Malaysia, and one of the world's top 10 producers, supplying four of the six leading multinational disk drive manufacturers.

Growth in the group's sales over the last five years has left little room for doubt about the scale of this breakthrough. Turnover of M$6.035m in 1988 had reached M$17.736m by 1992. And with pre-tax profits in 1992 accounting for more than 40 per cent of turnover, and a "pioneer" status exempting the group from corporate tax, the group's performance ahead of its listing was impressive.

Alfred Teh places much of the credit for this success with the family ownership and style of management, which he says has acted as a strong binding force.

"But this is a capital-intensive industry. If we wish to develop as the local equivalent of a multi-national, we must look to the capital markets," he says. Another consideration in ENG's decision to go public has been the political sensitivity attached to the domination of Malaysian business by the ethnic Chinese. "As good local Malaysian corporate citizens, we want to comply with the government plans for the sharing of wealth. It is very fair that we should structure the company so that it can be shared by the local Malays," he says.

Locals are also uppermost in Alfred Teh's thoughts as he grapples with the labour shortage that has come with Penang's success. "There is no denying that it is a problem," he says.

ENG's solution, at least for now, has been a greater commitment to training. "Every human resources department must play its part when labour needs to be as skilled as it is here."

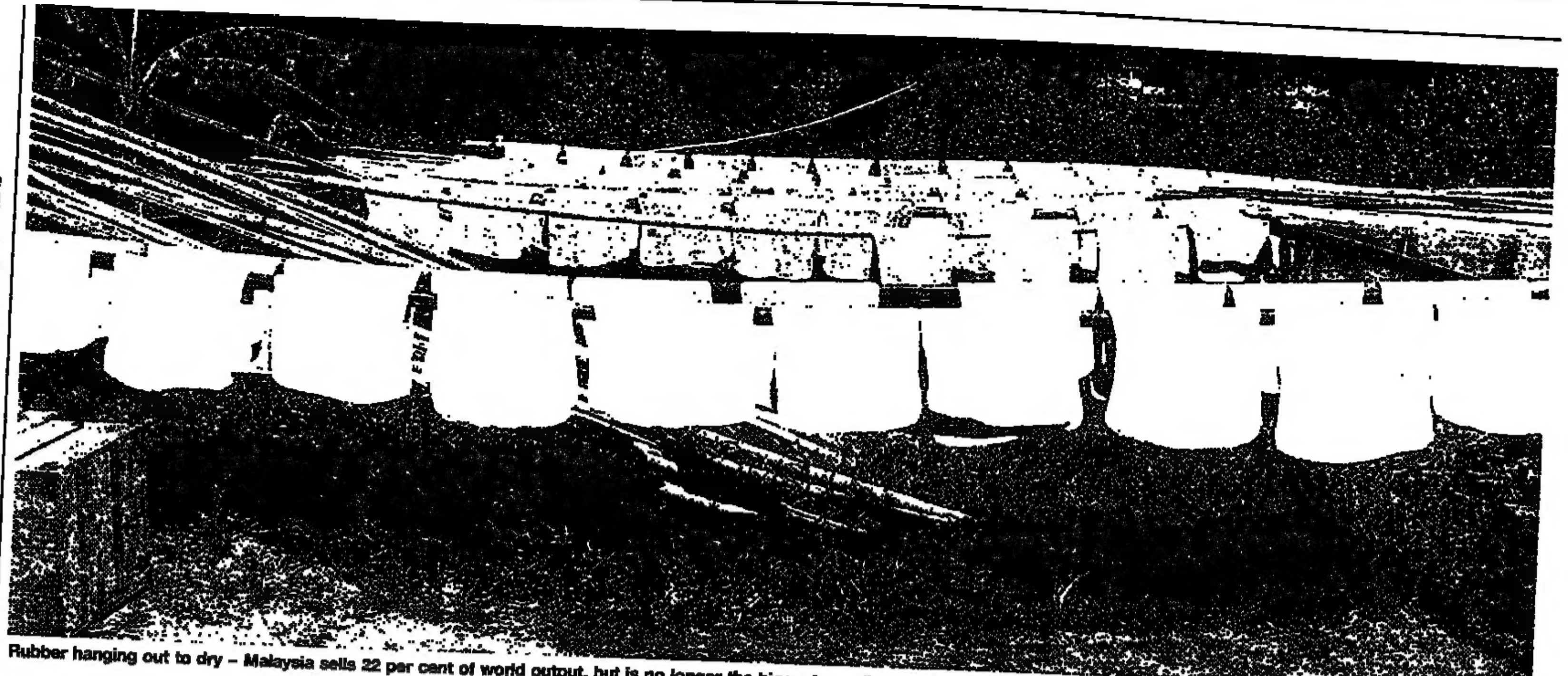
ENG recruits 20 school leavers a year as apprentice technicians, tending towards long-term contracts as a means of retaining staff. "I think in this respect, as well, we are something of a role model for local industries," he says.

Although the group's main thrust to date has been as a vendor company to the electronics industry, its plans are for further diversification. Its sights are already set on the aerospace, automotive and telecommunications industries.

"Our strength from the beginning has been our ability to evolve," says Alfred Teh. "We have one of the best ranges of capital investment in Malaysia, as well as the design capabilities, for a whole range of micro-parts. All we need from elsewhere is the end-requirement."

Even that is an area where ENG sees scope for development. It makes no bones about its increasing involvement in initiating the development of products for its customers, and its longer term aims are to attract more professionals still, so that it can move into the higher-technology end of the market. "The point is that we are no longer just selling technical services, we are selling our brains," says Alfred Teh.

Jenny Luesby



Rubber hanging out to dry – Malaysia sells 22 per cent of world output, but is no longer the biggest supplier (Picture: Terry Kirk)

Rubber and tin have been displaced as the top currency earners, says Kieran Cooke

Malaise in the plantations

NOT so long ago the price of rubber, tin and timber was the weathervane of the Malaysian economy. Price rises and falls on the international market determined Malaysia's overall economic health. Commodity traders represented a powerful group, at the very centre of the country's economic activity. Not any more.

Rapid industrialisation, particularly over the past five years, has dramatically changed the structure of the Malaysian economy.

In the early 1970s agriculture, forestry and mining (including the petroleum sector) accounted for about 80 per cent of the value of Malaysia's exports. As recently as 1987 commodities and mining made up 55 per cent of export values.

In 1992 manufactured goods accounted for 70 per cent of the total value of exports. At the same time agricultural goods (including timber) slumped to 17.4 per cent of the value of exports.

Malaysia's manufacturing sector continues to achieve double digit growth rates. Last year overall manufacturing output rose 10.5 per cent (13.9 per cent in 1991).

Agriculture, forestry and fishing accounted for 16.3 per cent of total GDP in 1992, down from 17.2 per cent in the previous year. Meanwhile, manufacturing's share of total GDP rose to nearly 29 per cent last year, compared with 27 per cent in 1991.

For the industrialists times are good. But things have been increasingly tough on the plantations.

International prices for many of Malaysia's commodities have failed to keep pace with increased production costs. Investors are turning to the relatively short term gains and opportunities offered by the industrial and commercial sectors, rather than wait for years for returns from the plantation sector.

Most seriously growing labour shortage problems are imposing serious constraints on agriculture: workers are migrating to jobs in urban areas. In many country areas production is falling with smallholders abandoning their crops.

Malaysia was once the world's leading natural rubber producer. But in recent years Thailand and Indonesia have both surpassed Malaysia in output terms. In 1992 Malaysia produced 1.2m tonnes of natural rubber, a 3 per cent drop on the previous year and the fourth consecutive year of falling output. (Malaysia's 1992 output represented 22 per cent of total world production).

World natural rubber prices have been falling since the late 1980s. Rising wage and land rates mean that Malaysia cannot compete with lower cost producers such as Indonesia.

While Malaysia has made significant advances in mechanisation techniques, thousands of foreign workers have to be employed to take the place of locals who have opted for more comfortable – and better paid – jobs in the cities.

Several rubber plantations and smallholders have either converted their lands to other more remunerative crops or they are selling it for real estate development and golf courses. Others have transferred operations overseas: Malaysian rubber planters are now investigating making investments in plantations in Vietnam.

Malaysia, faced with the decline of a crop once at the heart of its economy, has been at the forefront of efforts to negotiate a new international price mechanism for natural rubber. "We must have a new price structure," says Mr Lim Keng Yaik, Malaysia's minister for primary industries. "Consumers cannot be allowed to dictate prices. We cannot allow ourselves to be trampled on by the rich and powerful."

Cocoa, though a less significant crop than natural rubber in export terms, has suffered a similar fate. Ten years ago Malaysian cocoa growers were getting more than M$13,000 ($5100 at present exchange rates) per tonne for their crop. At one stage last year prices on the international market dropped to under M$2,000 per tonne.

Malaysia's tin miners have suffered even worse. In 1981 Malaysia was earning between M$32 and M$34 per kg for its tin exports. In early August prices on the Kuala Lumpur tin exchange were hovering around the M$12 per kg mark. With production costs estimated at M$16 per kg many mines have closed. In 1992 Malaysia's tin production fell by 31 per cent on the 1991 figure to just over 14,000 tonnes.

Mr Hew See Tong, president of the All Malaya Chinese Mining Association, says production is likely to fall further. "The industry is doomed if current prices and demand continue. Many miners will not be able to sustain operations."

The outlook for palm oil is brighter. With generally buoyant prices over the past two years more land is being turned over to the crop. In 1992 Malaysia produced 6.3m tonnes of palm oil, accounting for about 55 per cent of total world output.

But rapidly expanding palm oil production by Indonesia is posing a threat. Malaysia has to battle to find new export markets: the economic problems of the former Soviet Union, once a big importer of Malaysia's palm oil (and its cocoa and tin), has hurt the industry.

But labour shortages are the most serious problem. Mr Borge Bek-Nielsen is a Dane who has been in the palm oil business in Malaysia since the 1950s and now oversees operations on 94,000 acres of plantations on the west coast of peninsular Malaysia.

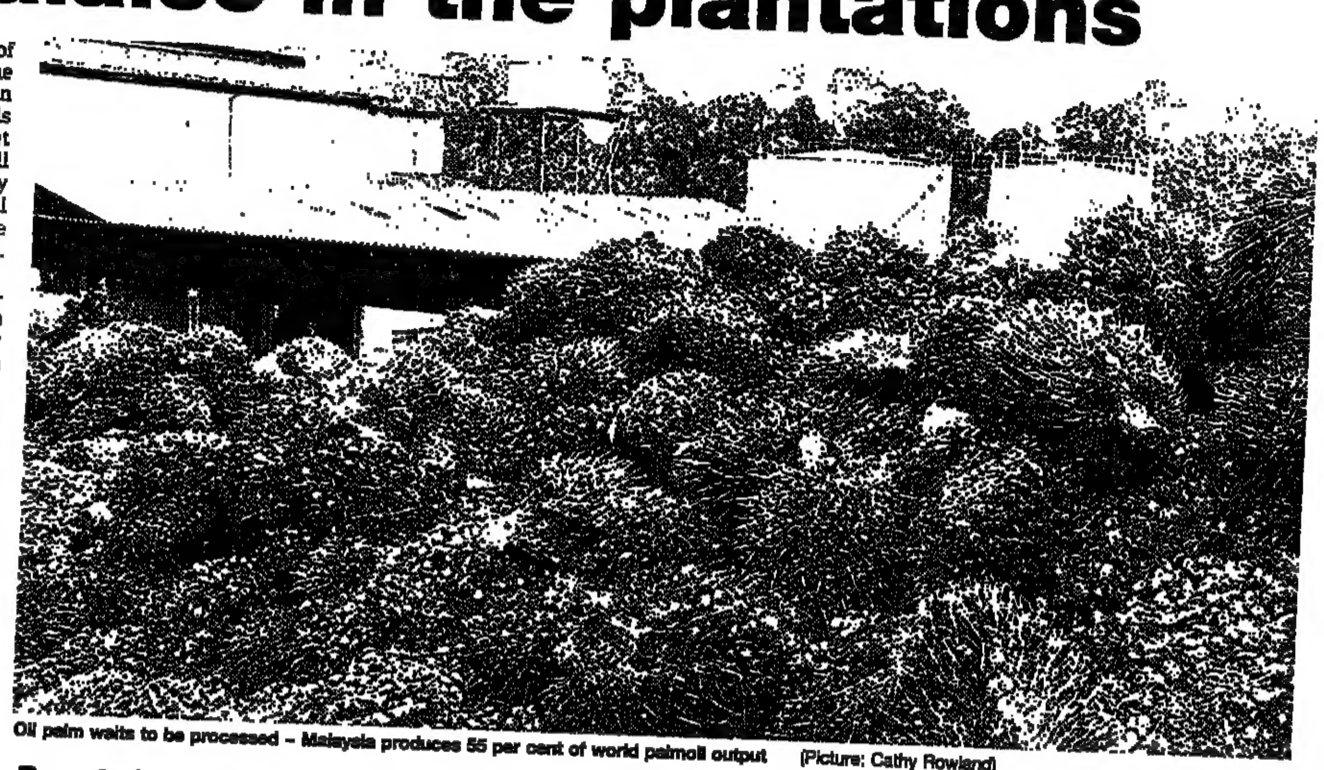
"Estate workers cost three times as much in Malaysia as in Indonesia. On some of our estates 70 per cent are foreign workers. Many just come for a few months, get their training, but then leave for the towns or cities."

There are those who feel that the government is too focused on the manufacturing sector and does not pay enough attention to agriculture and mining. They say the government should provide more facilities in country areas in order to keep people on the land. A government M$300 levy on every foreign worker employed on plantations only adds to the financial problems of the sector.

Commodities still play a vital role in the economy: the agricultural sector (including timber) still employs 27 per cent of the workforce, compared with 20.5 per cent in manufacturing. The commodity lobbyists say the economy should not be too overly dependent on one sector – and neglect agriculture. In 1992 palm oil was one of Malaysia's biggest export items, bringing in more than M$6bn in revenues.

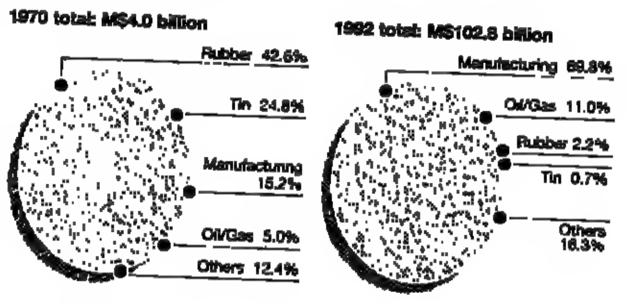
Dr Mahathir Mohamad, the prime minister, has no doubt that the move to industrialise was a wise one. "Just imagine what would have happened to us today if we had continued depending on tin and rubber," says Dr Mahathir.

Plantation owners and smallholders agree. But they warn of problems ahead if precious natural resources are neglected.



Oil palm waits to be processed – Malaysia produces 55 per cent of world palmoil output (Picture: Cathy Rowland)

Exports by sector



MAJOR COMMODITIES OUTPUT ('000 tonnes)

	1991	1992p
Rubber	1,257	1,220
Rice	1,792	1,722
Saw logs *	40,252	43,279
Sawn timber *	8,893	9,702
Palm oil	6,141	6,373
Palm kernel oil	782	812

p Preliminary. * Expressed in '000 cu metres. SOURCE: Malaysian government

Container ships at Port Kelang near Kuala Lumpur – the cargoes are changing as manufactured goods catch up with commodities (Picture: Glyn Genin)

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